

**SERICA ENERGY PLC**

**2019**

**ANNUAL REPORT AND ACCOUNTS**

Company Number: 5450950

## **EXECUTIVE CHAIRMAN'S STATEMENT**

Dear Shareholder

I am writing to you at an extraordinary time and a difficult time for many people, affecting not only personal lives and business in general but also the oil and gas industry in particular. Under these circumstances the combination of factors facing our industry are unprecedented.

I am, however, glad to be able to report that Serica is in robust financial health with strong finances, strong production levels and no borrowings or unfunded liabilities. We have taken all the steps that we can to keep our employees and contractors, essential to playing our part in maintaining UK energy supplies, safe and protected during the current COVID-19 outbreak. Due to their efforts and with our strong finances we are well placed to weather the current storms and also to take on the challenges and opportunities ahead.

Last year saw a transformation of Serica's business. Group operating profit for 2019 of £88 million after depreciation but before provision for taxes represents an 11-fold increase on prior year. This was achieved notwithstanding UK gas prices weakening over the period with the average price significantly lower than that of the previous year. We ended 2019 with £102 million net cash and no debt which puts us in a strong position as we enter an uncertain period for the industry.

Although we are facing unprecedented challenges, Serica is very much open for business, particularly as the industry repositions itself in a changing world. Our financial strength has resulted from the cautious approach which we took during the past year to developing new business opportunities and from efficiencies which our offshore teams introduced to operations. Our approach is fully focused on value and on managing the risks associated with the business, not only technical risk and price risk but also political risk as the fundamentals of the business change and we enter a world of both surpluses and energy transition.

With these risks very much in mind the Erskine and the Bruce, Keith and Rhum transactions were constructed as partnership deals with the vendors. This structuring has brought very material financial and risk-sharing benefit, not only to Serica but also to the counterparties. It has simultaneously strengthened and protected Serica's finances. The arrangements have enabled us to successfully reduce unit operating costs materially, whilst, at the same time extending the economic life of remaining reserves and related infrastructure and to do so in a way which preserves Serica's financial capability and our ability to perform in downturns such as the one we are currently witnessing. It has been a win-win experience for not only Serica's shareholders but also to the benefit of the original owners of the assets with whom we share our performance and I hope provides a template for future transactions.

Over the past year we have indicated that it would be the Board's intention to commence dividend payments once the Company had built up sufficient cushion to absorb knocks and build on opportunities that both inevitably come in our industry. We were not anticipating the perfect storm of a virus-induced collapse in demand occurring simultaneously with a new supply war amongst major producers but, due to the strength of the Company's underlying financial position, I am pleased nevertheless to be able to announce our maiden dividend even in the midst of such major uncertainties.

In determining the level of the dividend we are mindful of the uncertain world we face. UK gas prices are currently at a level not seen for well over a decade and oil prices reflect the current major oversupply and collapse in demand. The virus-impacted world is a new phenomenon which renders most expert evaluations for forward prices subject to even greater unpredictability. We are therefore recommending commencing dividends

at what we feel is a prudent level of 3 pence per share. This will cost the Company £8 million but it is the Board's view that, with significant cash balances at year end, no borrowings or major commitments, strong ongoing production and flexibility in controlling forward budgets, we are in a very strong position to commence a dividend payment and to both weather the current storms and seek new opportunities.

In the Chief Executive's report Mitch will be reporting on decisions we are taking to control costs and retain financial flexibility and decisions we are taking in respect of our current projects and forward expenditure profile. These include potentially rescheduling investment when we feel there would be greater economic return from deferral. We shall, of course, be keeping a flexible approach and a close eye on events over the coming months as we emerge from the current crisis and reposition our forward programme in the light of the then better-known facts.

Last year we also talked about our intention to seek new acquisition opportunities to add further value by building on operating efficiencies, reducing cost, exploiting synergies and managing risk. During the course of the year we made proposals in a number of initiatives but did so with a cautious approach and an eye on the risk/reward balance. We were not able to identify an opportunity which met the counterparties' expectations in respect of both value and risk when set against what we felt was a very uncertain outlook for commodity prices. In the current crisis facing the industry we feel our caution in this respect has been beneficial and has had the effect of strengthening the Company's position.

However, our objectives remain the same and we will continue to seek acquisition opportunities to build upon the solid base we have established but we will do so with risk and shareholder value firmly in mind. Our business model looks more to combining corporate capabilities and strengths with others to add value, blending Serica's low cost base, flexibility and operating capabilities with assets which no longer fit the objectives of others. If the current turmoil in the markets continues and major energy and utility companies have to refocus their businesses to meet the longer-term transition to new sources of energy we feel that there will be increasing emphasis on asset consolidation in which Serica would hope to play its part.

Finally, a word on the way we go about our activities. Serica is one of a leading group of companies producing oil and gas from the North Sea. Our operations currently supply about 5% of UK offshore gas production to the UK economy. We endeavour to produce these reserves with full focus on reducing our environmental footprint where we can and with the utmost attention to the health and safety of our personnel. These are topmost amongst our priorities and are of paramount and particular importance.

They are especially important during the current period of restrictions placed on staff movements and work practices caused by the pandemic outbreak. Our onshore and offshore teams have weathered storms, both physical, as in the big offshore storms this February, and operational, as in tackling the measures required to counter the pandemic. That they have been able to take on both in quick succession demonstrates the skills and commitment that they bring to the work that they do. Both I and the Board and, I am sure, shareholders would like to thank them for this and for the success that they have brought to the Company last year.

As the Company progresses so we look to expand diversity and complementary skills on the Board. We are delighted that Kate Coppinger, who until recently was Managing Director, Oil & Gas and Chemicals at Standard Chartered Bank, has accepted an invitation to join Serica's Board as a Non-Executive Director with immediate effect. Kate brings considerable knowledge to the Board on upstream M&A strategies and we welcome her as a new member.

The immediate future for industry looks uncertain as I write but with uncertainty comes opportunity as the industry moves forward and Serica is well placed to take advantage of those opportunities.

Tony Craven Walker  
Chairman  
22 April 2020

## **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 2019.

References to the "Company" include Serica and its subsidiaries where relevant. All figures are reported in GB Sterling ("£") unless otherwise stated. With effect from 1 January 2019, the Group's results have been reported in £ with prior period comparative information converted from US\$ and restated in £.

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 Namibia.

## CEO's REVIEW

2019 was a year of outstanding performance for Serica with net production totalling an average of 30,000 boe/d and operating profit of £87.7 million. In our first full year of operatorship of the Bruce, Keith and Rhum ("BKR") fields we have increased the net production from these assets to 27,300 boe/d (compared to 24,800 boe/d in 2018). Erskine production has been strong and net Serica production averaged 2,700 boe/d (compared to 650 boe/d in 2018).

With gross operated production from the BKR fields of 41,000 boe/d, Serica has established itself as one of the leading independent UKCS operating companies and has assembled a talented and motivated operating team. This focused team has succeeded in reducing our operating costs to US\$12.6 per boe. This compares to approximately US\$18 per boe for full year 2018. This reduction from the prior year level reflected both reduced costs and higher production rates.

The continued reduction in operating costs is one of our key objectives in seeking to extend the life of our operated assets. Serica has commissioned a new Competent Person's Report ("CPR") effective 1 January 2020 and this has identified several upgrades to net 2P Reserves estimates particularly due to the successful efforts to extend the prognosed Cessation of Production ("COP") on Bruce. The latest CPR estimates Bruce COP (2P case) to occur in 2028 (compared to 2026 in the previous CPR). Our net 2P reserves stood at 68.8mboe at 1 January 2019 and our 2019 net production was 11.0mboe but due to these upgrades, after reclassification and revisions our net 2P reserves at 1 January 2020 stand at 62.3mboe.

The extensive infrastructure associated with the Bruce field is particularly valuable and the utilisation of existing infrastructure is a key part of the UK Government's North Sea policy. This infrastructure offers significant capacity for third party tiebacks and Serica is already engaged in preliminary discussions with potential third-party shippers. The reduction in operating cost will help attract further business. We are also working on projects to increase the throughput of hydrocarbons across the Bruce platform. There are two major projects that are currently ongoing:

1. The Rhum field currently produces from two wells (R1 and R2) which are subsea tiebacks to the Bruce platform. A third well (R3) was drilled when the field was originally developed but was not put into production due to mechanical problems with equipment in the well. Serica is working on a project to bring R3 into production for the first time, with the aim of increasing production and overall recovery from the Rhum reservoir. Work continues on preparations for the Rhum R3 intervention project and the timing is under review.
2. In December 2019, Serica Energy (UK) Limited, received an out of round award of a 100% interest in the UK petroleum licence P2501, blocks 3/24c and 3/29c. These are located in the area adjacent to the Serica operated Rhum field. The award contains the HPHT North Eigg and South Eigg prospects and Serica has committed to drilling an exploration well on the North Eigg prospect within 3 years. In the event of a discovery on these blocks, Serica will investigate options for HPHT subsea tie-backs to the Bruce facilities and topsides modifications to ensure a low cost, efficient design to enable early development, maximise recovery and optimise production. Serica anticipates that there will be ample capacity within the Bruce facilities to handle North and South Eigg production.

In short, Bruce is open for business in order to maximise economic recovery from the area as a whole and therefore further extend the life of the existing assets.

After exploring in Ireland for over twelve years, Serica formally relinquished its three offshore licences in September 2019. Although Serica intends to continue covering the full life cycle of exploration, development and production, Irish opportunities have been

and are likely to continue to be much longer-term and the expense of maintaining the licences will be redirected to lower risk, nearer term opportunities in the Company's core areas elsewhere.

2020 has already presented a number of new challenges to the Company. During a Bruce platform inspection in late January 2020, the condition of an unused seawater return caisson on the platform was observed to have deteriorated. This caisson had been taken out of service in 2009. Production through the Bruce facility was halted while the problem was fully investigated and a subsequent underwater inspection determined that the unused caisson had parted below the water line. Our expert teams onshore and offshore successfully designed and executed a programme of repairs using a Remotely Operated Vehicle ("ROV") launched from a Diving Support Vessel ("DSV"). This work was performed during some of the most difficult weather conditions experienced in the North Sea for several years. Together with selected contractors we completed the programme of work to secure the caisson safely and with no environmental impact.

The successful conclusion of this work demonstrates the tremendous operating capability of our team. The work will have no negative impact on future production rates or on the ultimate hydrocarbon recovery from the Bruce, Keith and Rhum fields.

More recently the twin impacts of COVID-19 and the fall in commodity prices have presented new challenges. The Bruce platform is responsible for around 5% of the UK's gas production and it is important to maintain this production. The country needs this gas to create the power needed to allow the NHS and critical infrastructure to function. Therefore, most of our offshore team are designated as 'key workers' and we continue to work with the government and industry bodies to protect our staff and ensure that all precautions are in place to make their working environment safe

Serica has experienced no interruption in production due to the COVID-19 outbreak. We have strict travel policies in place and have also reduced manning levels on the Bruce platform in order to reduce the risk of an outbreak, allow social distancing offshore and provide isolation areas for suspected cases.

Serica has no borrowings, limited decommissioning liabilities and healthy cash reserves. Our operating costs remain low and so we are well-positioned to cope with commodity price variations. However, in light of recent commodity price weakness, a thorough evaluation of operating costs has been undertaken. Despite the additional costs associated with the Bruce caisson repairs it has been possible to identify significant cost savings associated with ongoing operations. Reductions in 2020 absolute operating costs of 10% have been identified to further those achieved in 2019 and are being implemented.

Along with other operators we have also reviewed our capital expenditure for 2020. The Columbus development requires the availability of the Arran to Shearwater pipeline but the Arran partners have chosen to delay that project due to the current business environment. The Columbus partners remain committed to the project but are reviewing the drilling timing for the development well due to this unexpected delay to the Arran to Shearwater pipeline. This would defer approximately £11.5 million of net CAPEX from 2020 to 2021. The timing of the R3 project is also under review and project execution may be deferred until 2021. The North Eigg exploration well is still scheduled for 2021 (no significant CAPEX is expected on North Eigg in 2020).

As a modern, dynamic energy company operating in a rapidly evolving energy landscape Serica recognises the need to lead a responsible business where our team feels empowered to address environmental and social challenges. We recognise these challenges and are working to develop a truly sustainable business which contributes to fulfilling the UK's energy demands whilst adding value for our shareholders and stakeholders. I am delighted therefore, to announce the publication today of our first

ever Environment Social and Governance (“ESG”) Report which can be found at [www.serica-energy.com](http://www.serica-energy.com)

Mitch Flegg  
Chief Executive Officer  
22 April 2020



## **REVIEW OF OPERATIONS**

### **Production**

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

Serica completed the acquisition of its 98% interest in the Bruce field on 30 November 2018 and took over as operator from BP. The Bruce facilities consist 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 responsible for actively maintaining, monitoring, repairing and optimising all equipment, wells and associated pipelines.

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

The offshore team is supported onshore from 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.

Bruce field production in 2019 averaged in excess of 13,100 boe/d of exported oil and gas net to Serica (2018 proforma – 12,000 boe/d). Production reliability was 93% with a short, planned maintenance period that overlapped the annual Forties Pipeline System integrity testing. This compares to 89% achieved during 2018 and demonstrates the impact that Serica’s operatorship has had on facility uptime.

Following a successful campaign in 2018 to repair three conductors (pipes connecting the wells from the seabed to the platform), four more sets of conductor clamps were installed in the August planned outage to protect against future well shut-ins. An additional diving campaign successfully reinstated a second umbilical to the WAD manifold, increasing reliability from the subsea wells.

During 2019 three key activities in understanding the future production potential of Bruce were undertaken. A successful trial of lower pressures at the well heads to facilitate increased gas production, the recommissioning of the test separator on the compression platform which increases the ability to undertake well performance tests and a well by well evaluation building on the first two activities. The well by well review was designed to identify the production upsides achievable from the planned future well intervention campaigns with the aim of enhancing and extending existing field production profiles.

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. Further to our previous success in integrating nine individual IT systems, we have continued to streamline our IT and integrated additional elements of our management systems, helping to reduce our IT costs by more than 30% overall.

We are also challenging the way things are done and reducing procedural complexity to expedite work execution. Assets in the North Sea face a constant challenge to keep metalwork painted so as to prevent corrosion. A comparison would be painting the Forth bridge but 100 miles offshore. By tailoring our process to find the right coating, applied in the right way, by the right people in 2019 we executed twice as much fabric

maintenance (painting work) as was done in 2018, but for the same price. Having better paint coating should reduce replacement and repair cost in future years.

The reduction of production outages on the Bruce platform has delivered more consistent production volumes which, allied to effective cost control, has proved key in reducing Group average operating costs to US\$12.6 per boe, down from a proforma average of US\$18 per boe for 2018. This is also expected to contribute to the extension of field life.

The latest independent report by Lloyd's Register estimated 2P reserves of 22.2 million boe net to Serica as of 1 January 2020.

In January 2020, during a Bruce platform inspection, the condition of an unused seawater return caisson on the platform was observed to have deteriorated. This caisson had been taken out of service in 2009. Production through the Bruce facility was halted while the problem was fully investigated. A subsequent underwater inspection determined that the unused caisson had parted below the water line. Both the upper and lower sections of the caisson were intact and engineering work to ensure that the caisson was properly secured commenced. Work was successfully undertaken during the following weeks and the caisson sections secured allowing production to restart on the 5 March 2020 considerably ahead of schedule despite some of the worst weather conditions seen in the North Sea for years. It is expected that the remaining work will be completed within 2020.

#### Northern North Sea: Keith Field – Block 9/8a, Serica 100% and operator

Keith is a small oil field produced via one subsea well tied back to the Bruce facilities and requires very little maintenance. Keith produces at a relatively low rate but contributes to oil export from Bruce at minimal additional cost. Average Keith production in 2019 was approximately 450 boe/d (2018 proforma – 800 boe/d). It is intended to keep the well in production as long as economically viable.

The latest independent estimate of reserves by Lloyd's Register estimated 2P reserves of 453,000 boe net to Serica as of 1 January 2020.

#### Northern North Sea: Rhum Field – Blocks 3/29a, Serica 50% and operator

The Rhum field is a gas condensate field producing from two subsea wells, R1 and R2, tied into the Bruce facilities through a 44km pipeline. Rhum production is separated into gas and condensate and exported to St Fergus and Grangemouth respectively along with Bruce and Keith production. Combined the wells are capable of producing at combined rates approaching 30,000 boe/d (gross) each of which some 95% is gas. The field has produced at relatively constant rates with limited reservoir decline evident through the year. Average Rhum production from the two wells in 2019 was 13,775 boe/d net to Serica.

A third well, R3, requires intervention work before it can be brought on production. In 1H 2019, investigative work to assess the condition of the well and associated control systems was successfully carried out and the data incorporated into planning for the R3 intervention. Meanwhile, as production from the R1 and R2 wells has continued at higher than anticipated levels this has left less spare processing capacity available in the near term for additional production volumes from R3. The intention remains to carry out the work this year but project execution may be deferred until 2021.

The latest independent estimate of reserves by Lloyd's Register estimated 2P reserves of 28.7 million boe net to Serica as of 1 January 2020.

### 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 condensate field located in the UK Central North Sea. Serica's co-venturers are Ithaca Energy 50% (operator) and Chrysaor 32%. Erskine fluids are processed and exported via the Lomond platform, which is 100% owned and operated by Chrysaor. Serica provides a secondee to Lomond as part of the offshore management team.

The Erskine field is produced through five wells from the Erskine normally unattended installation, 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 terminal at Teesside.

The field was returned to production in October 2018 after a 10-month shutdown to install a section of new pipe to bypass recurring wax blockage on the condensate export pipeline. A high frequency cleaning regime of the pipeline continues to be followed in order to maintain the availability of the export route and improve overall export reliability.

This has resulted in significant improvement in uptime: production efficiency in 2019 was slightly above 80% compared with much lower efficiencies in recent years. The Erskine production levels in 2019 averaged over 2,700 boe/d. This is the highest level since the acquisition by Serica in 2015 without any new wells having been drilled in that time.

Works have also been carried out on the Erskine production module located on the Lomond platform to rectify a long-standing compressor seal issue which had been the second largest factor impacting on production after pipeline issues. The regular pigging program on the new line has continued and no indications of wax build-up have been seen. To minimise work offshore whilst coronavirus restrictions are required, the planned full summer 2020 maintenance shut in will not take place but instead there will be some shorter production interruptions for specific tasks as required.

An updated independent audit of the Erskine field by Lloyd's Register confirmed estimated 2P reserves of 4.1 million boe net to Serica as of 1 January 2020.

## **Development**

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

Serica is Columbus field operator with partners Tailwind Mistral Limited (25%) and Waldorf Production Limited (25%). This gas condensate discovery is located in the Eastern Central Graben, UK Central North Sea and the reservoir is located within the Forties Sandstone.

In October 2018, OGA approved a Field Development Plan ("FDP") for Columbus, which included an expected peak production of 7,800 gross boe/day. The Columbus development plan involves tying a single horizontal subsea well into a pipeline being laid between the 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 to the Shearwater processing facilities, making use of an existing riser. 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.

As soon as development approval was received, detailed well design began and long-lead items started to be procured. Several of the key pieces of infrastructure will be manufactured and installed by Shell, with Serica drilling and completing the long-reach well targeting reservoir sands of Forties age.

Columbus timing is dependent on the Arran-Shearwater pipeline being tied into the Shearwater platform. The Arran partners have chosen to delay this project due to the current business environment, and so the start-up of the Columbus field is now expected to be in late 2021.

The latest independent reserves audit, carried out by Lloyd's Register, reported Columbus 2P Reserves of 6.7 million boe net to Serica as of 1 January 2020.

## **Exploration**

### **UK**

#### North Eigg and South Eigg – Blocks 3/24c and 3/29c, Serica 100% and operator

In December 2019, Serica was awarded the licence containing the North Eigg and South Eigg prospects as part of an out of round application. The work programme is to reprocess seismic and drill an exploration well within the initial three years. The North Eigg prospect has been high-graded for drilling, being clearly visible on 3D seismic data and sharing many similarities with the nearby Rhum field, operated by Serica.

Work has started on planning the exploration well, which will be high temperature and high pressure. Pursuing this project is part of Serica's strategy for the Bruce catchment area. In the event of a commercial discovery, Serica would seek a fast track route to develop the field potentially via a subsea tie-back to the Serica operated and 98% owned Bruce facilities. As well as providing Serica with potentially significant additional reserves, a tie-back to the Bruce platform would reduce unit operating costs and extend the economic life of this strategic North Sea infrastructure.

#### Columbus West – Block 23/21b, Serica 50%, operator Summit Exploration and Production

The Columbus West licence was awarded in the UK 30<sup>th</sup> Round and lies directly west of Serica's operated Columbus field. Serica has used its regional understanding to work with its partner to aim to identify potential commercially attractive prospects. During 2019 seismic reprocessing was completed over the licence and technical interpretation of the data carried out to help identify a potential drilling target. The prospects are currently being screened and ranked and there will be a drill or drop decision by the end of the initial term, October 2020.

#### Skerryvore and Ruvaal– Blocks 30/12c (part), 30/13c (split), 30/17h, 30/18c and 30/19c (part), Serica 20%, operator Parkmead

The Skerryvore and Ruvaal prospects lie in the Central North Sea, 60km south of the Erskine field. Over 500km<sup>2</sup> of 3D seismic data has been purchased over the licence areas. The seismic is being reprocessed and will then be interpreted and a drill or drop decision made on the prospects by the end of the initial three-year term in September 2021.

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

In April 2019, the ENI UK-operated Rowallan exploration well 22/19c-7 reached a total depth of 4,641 metres and was plugged and abandoned. Serica was fully carried and paid no costs towards the drilling of the well which encountered a 182 metre section of sandstone and shale but was not found to be hydrocarbon bearing. This is thought to be due to a lack of sealing rock to form a hydrocarbon trap. The well was drilled on time and on budget.

The partnership reviewed the results of 22/19c-7 and determined that the remaining prospects identified on the block had similar seal risks and made the decision to relinquish the licence. The blocks to the south of Rowallan, 22/24g and 22/25f have also been relinquished.

### ***Namibia***

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

Serica is in discussion with the Namibia Ministry of Mines and Energy on new licence terms to extend its interest in the Luderitz Basin blocks. It is anticipated that these discussions will be completed in the near term allowing Serica and its partners to progress work on the licence. During 2019, Serica incorporated recent drilling results offshore Namibia to build on its geological understanding of the region. These results have provided evidence towards a regional seal rock that would trap migrating hydrocarbons, thus benefitting deeper prospects, some of which have been identified in Serica's licence area. Serica understands that further drilling in Namibia is currently planned by other operators, which will provide more data points and hopefully strengthen the chance of success of Serica's prospects.

### ***Ireland***

#### Frontier Exploration Licences 1/09, 4/13, 1/06 Serica 100%

After exploring in Ireland for over twelve years, Serica formally relinquished its three offshore licences in September 2019. All work done to date and related samples and data have been provided to the Petroleum Affairs Division in the Department of Communications, Climate Action and Environment.

Although Serica intends to continue covering the full life cycle of exploration, development and production, Irish opportunities have been and are likely to continue to be much longer-term and the expense of maintaining the licences will be redirected to lower risk, nearer term opportunities in the Company's core areas elsewhere.

## Group Proved plus Probable Reserves ("2P")

	Oil mmbbl	Gas bcf	Total oil and gas mmboe
<b>2P Reserves at 31 December 2018</b>	<b>14.4</b>	<b>326.8</b>	<b>68.8</b>
2019 production	(1.3)	(49.1)	
Fuel in operation		(28.0)	
Revisions	1.7	35.0	
<b>2P Reserves at 31 December 2019</b>	<b>14.8</b>	<b>284.7</b>	<b>62.3</b>

Proved and Probable reserves as at 31 December 2018 were 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.

Rather than continue with two overseas reserves auditors, Serica changed the reserves auditor to UK-based Lloyd's Register. Accordingly, Group Proved and Probable reserves as at 31 December 2019 are based on the independent report prepared by Lloyd's Register in accordance with the reserve definitions guidelines defined in SPE Petroleum Resources Management System 2018 ("PRMS 2018").

Gas reserves at 31 December 2018 and 2019 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 from individual fields may result in a different conversion factor.

Fuel in Operation refers to gas used to generate power required to run the production and processing facilities; this gas is produced from the reservoir but removed before the production stream is sold and hence does not form part of the revenue stream. Guidelines in the two reporting standards used to prepare the figures in the table above differ, with FIO volumes being included in the totals at the end of 2018 but not at the end of 2019.

As summarised above, aggregate reserves revisions result from several factors, including field production performance in the time between audits and prevailing commodity prices, which are used for the economic evaluation. Both of these may result in changes to production profile curtailment and decommissioning.

## LICENCE HOLDINGS

The following table summarises the Group's licences as at 31 December 2019.

Licence	Block(s)	Description	Role	%	Location
<b>UK</b>					
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
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
P2501	3/24c,3/29c	Exploration	Operator	100%	Northern North Sea

<b>Namibia</b>					
0047	2512A, 2513A, 2513B, 2612A (part)	Exploration	Operator	85%	Luderitz Basin

## **FINANCIAL REVIEW**

With effect from 1 January 2019, following the change in functional and presentational currency (see note 3), the Group and Company's results are reported in £ with prior period comparative information converted from US\$ and restated in £. This change follows completion of the major BKR acquisitions in late 2018 which brought significant additional volumes of UK gas for which sales are denominated in £ and costs which are settled almost entirely in £.

Revenues and costs arising from the BKR acquisitions have been included from 30 November 2018 onwards. Serica's share of net income from the BKR fields from the effective date of the acquisitions, 1 January 2018, until 30 November was deducted from the consideration paid at completion rather than included within the 2018 income statement. Further, a significant bargain gain on the acquisitions of £33.7 million has been booked in 2018.

In addition, the Erskine field only contributed two and one-half months of net income during 2018 whilst an export line blockage was resolved. Production restarted in late October 2018 with steady production since then.

## **2019 RESULTS**

Serica is reporting results incorporating the first full year of contribution from its BKR assets following completion of the four acquisitions late in 2018. These show healthy levels of production, profit and cash generation, despite a fall-off in gas prices during the year, supported by reduced levels of operating cost per boe.

In addition to a strong operational performance, the benefits of the BKR deal structures can be seen through the closing 2019 balance sheet. BKR-related deal liabilities which stood at £254.8 million at year end 2018 were reduced to £155.5 million at year end 2019. The gas prepayment facility arranged with BP, totalling £16 million including interest, was fully paid off during the year leaving the Company with no debt at 31 December 2019. This is also after payment of 50% of net cashflow due under BKR agreements for 2019 leaving only two remaining years each at 40%.

Under the BKR deals, net cash flow sharing and certain other deferred payments vary in line with actual net cash generated thus flexing with changes in commodity sales prices and production volumes. This mitigated the impact of falls in gas prices last year. It continues to mitigate the impact of the erratic oil and gas market conditions prevailing so far this year as well as the recent six-week shut in of BKR for caisson repairs. Just as Serica as buyer and BP, Total E&P and BHP as vendors shared the benefits through the strong production and pricing periods during 2018 and 2019, the impact of recent cash flow reductions is also shared by each party. Remaining payments due are expected to be further reduced if the recent commodity price slump is sustained for a significant period.

Overall, Serica generated a profit before taxation for 2019 of £108.8 million compared to £39.5 million for 2018. After non-cash deferred tax provisions of £44.8 million (2018 - £12.0 million release), profit for the year was £64.0 million compared to £51.5 million for 2018.

### **Sales revenues**

Total product sales volumes for the year comprised approximately 491.3 million therms of gas, 1,567,100 lifted barrels of oil and 85,500 MT of NGLs. These generated total 2019 product sales revenue of £250.5 million (2018: £35.7 million) consisting of BKR revenues of £216.6 million (2018: £26.6 million) and Erskine revenues of £33.9 million (2018: £9.1 million). This represented average sales prices net of system fees of 31 pence per therm, US\$61.4 per barrel and US\$337 per tonne respectively giving an



approximate realised sales price for lifted volumes of US\$30 per barrel of oil equivalent. This is before gas price hedging gains detailed below.

Oil sales are booked as revenue when barrels are lifted and title is transferred whilst movements in over/underlifts are charged/credited to cost of sales.

### **Gross profit**

Gross profit for 2019 was £85.8 million compared to £20.0 million for 2018. Overall cost of sales of £164.7 million compared to £15.7 million for 2018. This comprised £105.1 million of operating costs (2018 - £13.1 million) and £52.6 million of non-cash depletion charges (2018 - £6.2 million). There was also a charge for the movement during the year in oil stocks. Serica's significant underlift position at the end of 2018, including an oil allocation of 95,000 barrels from December BKR production, was reversed during 2019 leaving a small overlift position at year end 2019 and giving rise to a £7.0 million charge within cost of sales (2018 - £3.6 million credit).

Operating costs include costs of production, processing, transportation and insurance. Depletion charges are based upon the booked acquisition values for the BKR and Erskine transactions allocated on a unit of production basis for the relevant period. Operating costs of US\$12.6 per boe compare to approximately US\$18 per boe for full year 2018 calculated for comparative purposes on a proforma basis to include the BKR assets from the effective acquisition date of 1 January 2018. This reduction from the prior year level reflected both reduced costs and higher production rates.

Depletion charges per boe of £4.9 in 2019 are calculated on a unit of production basis and reflected an increase in total booked proven and probable reserves. Operating costs of £12.2 million and depletion charges of £1.7 million related to the Erskine field whilst operating costs of £92.9 million and depletion charges of £50.9 million related to the BKR fields.

### **Operating profit before net finance revenue, tax and transaction costs**

Operating profit for 2019 was £87.7 million compared to £8.0 million for 2018. The increase included gas price hedging gains (other income) on price puts and swaps of £10.6 million (2018 - £1.6 million loss) comprising realised gains of £3.9 million maturing in 2019 and unrealised gains of £6.7 million reflecting the estimated fair value of further instruments held in respect of future periods. Following net impairments and write-backs of E&E assets of £2.5 million in 2018 there were minor charges of £0.1 million in 2019. Administrative expenses of £6.0 million for 2019, up from £3.6 million for 2018, reflected the additional resources required to support the much expanded Serica organisation. Other expenses in 2019 comprised a foreign exchange loss of £1.0 million (2018 - £0.1 million gain) arising on £/US\$ currency movements during the year and share-based payments of £1.1 million for 2019 (2018 - £0.4 million). The operating profit for 2018 included BKR transition costs of £8.8 million with no further such charges in 2019.

### **Profit before taxation and profit for the year**

Profit before taxation was £108.8 million (2018 - £39.5 million).

The 2019 profit before taxation includes a gain of £21.8 million arising following a downwards revision of the fair value of the Balance Sheet financial liability relating to consideration projected to be paid under the BKR agreements. The fair value of this liability is re-assessed each financial period end and the most significant factors behind the downward revision released to the Income Statement are lower realised gas pricing on amounts paid in respect of 2019 and lower short-term gas prices used in the forecast of 2020 Net Cash Flow payments.

The 2018 bargain purchase gain of £33.7 million represented the difference between fair valuations of the BKR assets acquired and consideration paid or potentially payable

calculated in accordance with applicable accounting standards. In accordance with accounting standards, the fair value was provisionally determined at year end 2018. Adjustments to the provisional fair value assessments have been identified during the current period. The net impact of the adjustments to the acquisition date balance sheet is a reduction in the bargain purchase gain of £7.8 million. This comprises a combined £3.0 million of revisions to the estimations of the consideration payable and of the acquisition date fair value of inventory and trade and other payables, less a £10.8 million adjustment to the estimation of the deferred tax liabilities arising at the acquisition date. These final adjustments are reflected in the 2018 restated results.

Finance revenue of £0.6 million (2018 - £0.2 million) represented interest earned on cash deposits. Finance costs of £1.3 million (2018 - £0.3 million) represented the discount unwind on decommissioning provisions and interest payable on the gas prepayment facility drawings.

A non-cash deferred tax charge of £44.8 million compared to a credit of £12.0 million for 2018. The prior year credit largely reflected 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. As the Company continues to benefit from accumulated losses carried forward from previous years it is not currently paying cash taxes. It is nonetheless required to make provision for deferred taxes in recognition of future periods when all losses have been utilised and cash payments will be made and this is reflected in the provision for 2019. Tax losses remaining at 31 December 2019 are expected to continue to shelter income from cash tax payments for at least 2020 and potentially longer at current commodity prices.

Overall, this generated a profit for the year of £64.0 million compared to £51.5 million for 2018.

## **BALANCE SHEET**

The balance sheet at 31 December 2019 demonstrates Serica's significant progress through the year.

Exploration and evaluation assets showed a small increase from £3.2 million in 2018 to £3.7 million in 2019 reflecting minor ongoing licence work in the UK and Namibia.

Property, plant and equipment decreased from £373.7 million to £325.4 million during 2019 principally reflecting depletion charges on oil and gas assets of £52.6 million (2018 - £6.2 million) offset by £4.5 million of Columbus asset additions and other minor asset movements of £0.2 million.

The inventories balance of £4.7 million at 31 December 2019 (2018 - £4.3 million) comprised materials and spare parts. Trade and other receivables decreased from £53.0 million in 2018 to £35.9 million in 2019 as the level of recoverables outstanding following completion of the BKR transactions was reduced during 2019 and a significant liquids underlift prior year balance of £6.7 million unwound during 2019. The current 2019 overlift position of £0.2 million is classified in liabilities. The 2019 balance includes trade receivables of £20.9 million (2018 - £30.9 million), £10.9 million of recoverables from JV partners (2018 - £5.9 million) and other receivables and prepayments of £4.1 million (2018 - £9.5 million).

The derivative financial asset of £6.9 million in 2019 (2018 - £0.1 million) represented the fair value of gas price put options and swaps in place as at 31 December 2019 covering the period from 1 January 2020 to 31 December 2020. The year-end cash and cash equivalent balances plus term deposits totalled £101.8 million (2018 - £43.1 million).

The reduction in current trade and other payables to £24.6 million at 31 December 2019 from £35.2 million in 2018 represents settlement during 2019 of amounts outstanding following completion of the BKR acquisitions. Current provisions of £1.8 million (2018 – £1.8 million) represent certain contingent liabilities related to savings in field operating costs that may fall due under the Erskine acquisition agreement.

Financial liabilities of £45.4 million (2018 - £90.3 million) within current liabilities and £110.1 million (2018 – £164.5 million) within non-current liabilities comprise remaining amounts projected to be paid under the BKR agreements. The current element includes amounts estimated to be payable under the BKR net cash flow sharing arrangements during 2020 plus fixed amounts of US\$10.0 million (2018 - US\$5.0 million in current and US\$10.0 million in non-current financial liabilities) due to Total E&P also under the BKR agreements. Current and non-current amounts due under the net cash flow sharing arrangements are based on forward projections of production volumes and sales prices with final liabilities ultimately calculated on production volumes and sales prices actually achieved in the respective periods. Non-current financial liabilities also include estimated deferred consideration in respect of Rhum field performance and BKR decommissioning.

Non-current provisions of £22.6 million have been made in respect of decommissioning liabilities for the Bruce and Keith interests acquired from Marubeni (2018 - £22.6 million). 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 the Erskine facilities as these are retained by BP up to a cap which is not projected to be exceeded.

Overall net assets have increased from £131.8 million in 2018 to £198.0 million in 2019.

The increase in share capital from £180.3 million to £181.4 million arose from shares issued following the exercise of share options and shares issued under an employee share scheme, whilst the increase in other reserve from £16.7 million to £17.8 million arose from share-based payments related to share option awards.

## **CASH BALANCES AND FUTURE COMMITMENTS**

### ***Current cash position and price hedging***

At 31 December 2019 the Group held cash and cash equivalents of £101.8 million (2018 – £42.1 million) with no term deposits (2018 – £1.0 million). Of this total, £12.1 million was held in a restricted account as security against letters of credit issued in respect of certain decommissioning liabilities. The main element of the increase was Serica's retained share of the strong net operating cash flows from the Company's producing interests. These amounts were offset by cash payments totalling £57.3 million (2018 – net receipts of £22.2 million) under the BKR acquisition agreements, primarily monthly payments to BP, Total E&P and BHP respectively, of 50% of net operating cash flows derived from the Bruce, Keith and, in the case of BP, Rhum interests acquired from those companies. Amounts due under the net cash flow sharing arrangements fall to 40% for 2020/2021 and zero thereafter. The increase was also generated after full repayment of £15.7 million before interest of the BKR prepayment facility (2018 - £12.8 drawing) and £4.6 million of capital costs on Columbus and Erskine.

At 31 December 2019 Serica held gas price puts covering volumes of 160,000 therms per day for 1H 2020 at a floor price of 35 pence per therm with no upside price restrictions. Serica also held gas price swaps at fixed prices of; 46.55 pence per therm covering 160,000 therms per day for Q1 2020, 40.75 pence per therm covering 160,000 therms per day for Q2 2020, 37.6 pence per therm covering 80,000 therms per day for Q3 2020 and 45.41 pence per therm covering 80,000 therms per day for Q4 2020.

In January 2020, Serica obtained additional gas price swaps covering 120,000 therms per day for Q1 2021 at an average of 45.95 pence per therm. In March 2020, further swaps of 80,000 therms per day for November 2020 at 32.55 pence per therm, 100,000 therms per day for December 2020 at 35.55 pence per therm and 65,000 therms per day for Q1 2021 at 36.20 pence per therm were obtained.

Following onset of the COVID-19 crisis, cash projections have been run to examine the potential impact of extended low oil and gas prices as well as possible production interruptions. Some 80% of Serica's production is gas with low prices partially mitigated by price hedging up to 31 March 2021. The BKR net cash flow sharing arrangements and structuring of the Rhum deferred consideration further mitigate the impact of low sales prices and any production interruptions to end 2021 upon net income. This allied to the fact that Serica currently has substantial cash resources, no borrowings and relatively low operating costs per boe means that the Company is well placed to withstand such risks and its limited capital commitments can be funded from existing cash resources.

### ***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 ongoing field expenditures.

Serica's share of income from the BKR fields, after net cash flow sharing payments, is expected to cover Serica's retained share of ongoing field expenditures as well as other contingent or deferred consideration due under the respective BKR acquisition agreements set out below. Plans to workover the Rhum R3 well are in hand with work expected to be carried out in Q4 2020 with expenditures met from existing cash resources.

The Columbus development is underway with first gas expected in late 2021. Total expenditure net to Serica's share of development costs outstanding at 1 January 2020 is estimated at approximately £23 million.

The Group has no significant exploration commitments apart from the well on North Eigg prospect to be drilled within three years of the November 2019 licence award.

### ***BKR asset acquisitions***

On 30 November 2018 Serica completed the four BKR acquisitions. The following elements of consideration were still outstanding at 31 December 2019:

- A contingent payment of £16 million is due to BP Exploration Operating Company ("BPEOC") upon a successful outcome of work to bring the Rhum R3 well onto production and demonstration of a minimum cumulative 90 days of gas production at a defined level.
- Contingent payments of up to £7.7 million are due to BPEOC for each of 2020 and 2021 based upon Rhum field performance and sales prices in the respective years. There will then be a final calculation of the combined performances covering these years plus 2019 applied to total consideration of £23.1 million. The payment in respect of 2019 was £2.6 million and further payments are expected to be significantly reduced based upon current projected production volumes and market prices.
- Two further instalments of deferred consideration of US\$5 million each are due to Total E&P due in April 2020 and December 2020.
- In addition, Serica will pay contingent cash consideration to BPEOC, Total E&P and BHP calculated as 40% of net cash flows resulting from the respective field interests acquired from those companies in each of 2020 and 2021. Such

amounts will be paid by Serica pre-tax on a monthly basis and then offset by Serica against its own tax liabilities.

- 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. Staged prepayments against such projected amounts will commence in 2022 and be spread over the remaining years before cessation of field production
- Serica will pay to each of BP, Total E&P and BHP, deferred consideration equal to 90% of their respective shares of the realised value of oil in the Bruce pipeline at the end of field life.

## **OTHER**

### ***Asset values and impairment***

At 31 December 2019, Serica's market capitalisation stood at £345.3 million based upon a share price of 129.2 pence which exceeded the net asset value of £198.0 million. By 21 April the Company's market capitalisation has fallen to £216.9 million. Management has carried out a thorough review of the carrying value of the Group's assets and determined that no write-downs are required.

## 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.

The four BKR acquisitions have greatly increased production levels which, along with associated cash receipts upon completion, have enabled 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 also uses price hedging instruments to help manage field revenues and will continue to seek cost effective opportunities to add to its existing gas price puts and swaps. These currently cover an estimated 30% of the Company's retained share of projected 2020 gas production.

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

<b>Investment Returns:</b> 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.	
<b>Risk</b>	<b>Mitigation</b>
Stock market support may be eroded lowering investor appetite and obstructing fundraising	<ul style="list-style-type: none"> <li>• Management regularly communicates its strategy to shareholders</li> <li>• Focus is placed on building a diverse and resilient asset portfolio capable of offering prospectivity throughout the business cycle</li> </ul>
Each investment carries its own risk profile and no outcome can be certain	<ul style="list-style-type: none"> <li>• Management aims to avoid over-exposure to individual assets, to identify the associated risks objectively and mitigate where practical</li> </ul>

<b>Operations:</b> Operations may not go according to plan leading to damage, pollution, cost overruns or poor outcomes.	
<b>Risk</b>	<b>Mitigation</b>
Production may be interrupted generating significant revenue loss whilst costs continue to be incurred	<ul style="list-style-type: none"> <li>• The Company seeks to diversify its revenue streams</li> <li>• Management also determines and retains an appropriate level of working capital</li> <li>• Business interruption cover is</li> </ul>

	carried when cost effective
Third party offtake routes may experience restrictions or interruptions and full availability may depend upon sustained production from other fields in the system	<ul style="list-style-type: none"> <li>• The Group aims to diversify its exposure to offtake routes where possible though all of its oil production currently uses the FPS system</li> <li>• The Group carries business interruption cover</li> </ul>
The Company is reliant upon its IT systems to maintain operations and communications	<ul style="list-style-type: none"> <li>• The Group employs specialist support and</li> <li>• Protection against external intrusion is incorporated within the system and tested regularly</li> </ul>

**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	<ul style="list-style-type: none"> <li>• The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive</li> <li>• The Group seeks to build depth of experience in all key functions to ensure continuity</li> </ul>
Personal safety may be at risk in demanding operating environments, typically offshore	<ul style="list-style-type: none"> <li>• A culture of safety is encouraged throughout the organisation</li> <li>• Responsible personnel are designated at all appropriate levels</li> <li>• The Group maintains up-to-date emergency response resources and procedures</li> </ul>

**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 and licences are required to be renewed periodically	<ul style="list-style-type: none"> <li>• An OFAC Licence has been obtained which has enabled continuing production from Rhum</li> <li>• Serica initiates the renewal process well in advance of the specified date</li> </ul>
Volatile commodity prices mean that the Group cannot be certain of the future sales value of its products	<ul style="list-style-type: none"> <li>• Planning and forecasting considers downside price scenarios</li> <li>• Oil and gas floor price hedging may be utilised where deemed cost effective</li> </ul>

	<ul style="list-style-type: none"> <li>• Price mitigation strategies may be employed at the point of major capital commitment</li> </ul>
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<b>COVID-19:</b> The impact of the virus has significantly affected the majority of global activities and markets. The full extent and duration of the crisis remains uncertain.	
<b>Risk</b>	<b>Mitigation</b>
The Company's personnel may be at risk from catching the virus	<ul style="list-style-type: none"> <li>• The Company has instituted recommended safe practices and will maintain these as necessary</li> <li>• Serica has instituted a programme of working from home where feasible and temporarily closed its London and Aberdeen offices</li> <li>• The Company has reduced the number of staff working offshore to a safe minimum and encourages safe working and travelling practices</li> </ul>
The spread of infection and associated counter measures may interrupt offshore operations	<ul style="list-style-type: none"> <li>• The Company has reduced the number of staff working offshore to a safe minimum</li> <li>• Management encourages safe practices both offshore and travelling to and from the platform</li> </ul>
The continued operation of Serica's fields may be adversely affected by interruptions to operations of fields and infrastructure downstream	<ul style="list-style-type: none"> <li>• Serica carries a working capital reserve to cover such eventualities</li> <li>• Serica works with the regulatory bodies and infrastructure owners to identify and mitigate any such risks</li> </ul>
The crisis and associated reduction in global activity and travel have severely impacted commodity markets and prices and may continue to do so for an undetermined period of time	<ul style="list-style-type: none"> <li>• Serica uses commodity price hedging instruments where deemed cost effective</li> <li>• Investment strategies and expenditure programmes are evaluated under a range of price scenarios</li> <li>• Serica is reducing non-essential work and costs where practical</li> </ul>

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



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

The Company’s main business is the acquisition, development and production of commercially attractive oil and gas reserves in a safe and environmentally sensitive manner. This is achieved both through pursuing the full cycle of exploration, discovery, development and production and also through acquiring existing reserves where management believe that further value can be added. The Company tracks its non-financial performance through the building of a risk-balanced portfolio of full cycle assets, the accumulation of commercial oil and gas reserves and the efficient production of those reserves. In parallel, the Company tracks and reports its HSE and ESG performance. Financial performance is tracked through the management of expenditures within resources available, the optimal exploitation of production infrastructure and the cost-effective production of reserves. A review of the Company’s progress against these KPIs is covered in the operations and financial review within this Strategic Report.

## **S172 statement**

The Directors’ statement under Section 172 of the Companies Act 2006 is included on pages 45 and 46.

## **Additional Information**

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

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

On behalf of the Board  
Mitch Flegg  
Chief Executive Officer

22 April 2020

## **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 2019.

### 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 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 £64,020,000 (2018: £51,485,000).

In view of the strong performance of the Company, the Directors are recommending the payment of a final dividend of 3 pence per share for the year to 31 December 2019, see note 14 (2018: £nil).

### Financial Instruments

The Group's financial risk management objectives and policies are discussed in note 25.

### Events Since Balance Sheet Date

Events since the balance sheet date are included in Note 33.

### Directors and their Interests

The following Directors have held office in the Company since 1 January 2019 to the date of this report:

Antony Craven Walker  
Neil Pike  
Ian Vann  
Mitch Flegg  
Trevor Garlick  
Malcolm Webb

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:

	<b>Class of share</b>	<b>Interest at end of year</b>	<b>Interest at start of year (or date of appointment if later)</b>
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	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 29 to the Financial Statements. Details of share awards made during 2019 and up to 21 April 2020 under the Serica Energy plc Long Term Incentive Plan (the "LTIP") are also included in note 29.

### **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 make 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  
22 April 2020

## **CORPORATE GOVERNANCE STATEMENT**

### **Chairman's Corporate Governance Statement:**

I am pleased to introduce the corporate governance section of our report which explains how the Company's governance framework supports the principles of integrity, strong ethical values and professionalism integral to our business. As Chairman of the Company it is my responsibility to work with my fellow Board members to ensure that the Company embraces corporate governance and delivers the highest standards we can. It is within my role to manage the Board in the best interests of our many stakeholders. Good governance depends on strong and effective leadership and a healthy corporate culture, supported by robust systems and processes and a good understanding of risk. As we said last year as a Board we recognise that we are accountable to our many stakeholders and this report, together with the reports of the Audit, Nomination & Corporate Governance, Remuneration and Health, Reserves, Safety & Environmental Committees, seeks to demonstrate our commitment to high standards of governance. Our bid to maintain good levels of corporate governance has allowed us to build a healthy corporate culture throughout the organisation. The Board is fully supportive of embracing high levels of corporate governance.

The Company adopts the Quoted Companies Alliance Corporate Governance Code 2018 (the 'QCA Code') which it believes to be the most appropriate recognised corporate governance code for the Company. We report our compliance with the QCA Code through the AIM Rule 26 section of our website and in areas of our Annual Report.

2019 has been a year of strong performance which has established Serica as one of the leading independent UKCS operators. We continue to look at ways in which we can improve on this performance but do so without prejudicing our high standards towards Corporate Governance, the Health and Safety of our employees, ethics and the Environment.

Finally, the importance of engaging with our shareholders continues and underpins the success of the business. The Board strives to ensure that there are numerous opportunities for investors to engage with both the Board and executive team.

Antony Craven Walker  
Executive Chairman

The QCA Code has ten principles of corporate governance that the Company has committed to apply within the foundations of the business. These principles are:

<b>Principles</b>	<b>Serica Response</b>
Establish a strategy and business model which promote long-term value for shareholders	The Company operates in a sector that is exposed to political, operational, commercial, product pricing and hazard risk. Its strategy is to manage risks, financial capacity and growth opportunities in the business through an active programme of acquisition and divestment to balance risk and potential whilst optimising operating costs and procedures to improve performance and identifying new technologies that can enhance value. The Company seeks a forward looking, professional and safety conscious culture in all that it does to provide an environment for the benefit of all stakeholders.
Seek to understand and meet shareholder needs and expectations	The Company engages with shareholders at the Annual General Meeting, after the announcement of interim and final results and regularly presents at investor events.
Take into account wider stakeholder and social responsibilities and their implications for long-term success	The Company seeks to be a responsible corporate citizen in all its areas of operation and is committed to maintaining a high standard of corporate governance.  The Company has published a Environmental, Social and Governance Report. See further details on pages 47 to 49.
Embed effective risk management, considering both opportunities and threats, throughout the organisation	The Company has an effective risk management framework, which is subject to oversight by the Audit Committee. See further details on page 38.
Maintain the Board as a well-functioning balanced team led by the Chair	Refer to further discussion of the Board structure and composition on pages 32 and 33.
Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	The complementary skills and experience of our Board and Executive Management team are included on pages 30 to 31.
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Refer to discussion of Board evaluation on page 35.
Promote a corporate culture that is based on ethical values and behaviors	The Company has a zero-tolerance approach to bribery and corruption and has an Anti-Bribery Policy in place to protect the Company, its employees and those third parties with which the business engages. Employees have each partaken in Anti-Bribery training and assessment.

Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	Refer to further discussion of the Company's governance structures, including matters reserved for the Board, on page 36.
Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	The Company's financial and operational performance is summarised in the Annual Report and the Interim Report, with regular updates provided to stakeholders in other forums through the year, including press releases and regular updates to the Company's website.

## **EXECUTIVE MANAGEMENT TEAM AND BOARD OF DIRECTORS/PROFILES**

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.

Committees: Nomination & Corporate Governance Committee.

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 and becomes a leading producer and operator. Mr Flegg was appointed to the board of OGUK, The UK Oil and Gas Industry Association Limited in April 2020.

Committees: Reserves Committee, Health Safety & Environmental Committee.

Neil Pike, the 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 financial decisions of the business and also to work with and question the Group's auditors as required.

Committees: Audit Committee (Chair), Remuneration Committee, Nomination & Corporate Governance Committee.

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.

Committees: Remuneration Committee (Chair), Health Safety & Environmental Committee, Audit Committee and Reserves Committee.

Trevor William Garlick, Non-Executive Director joined the Board on 30 November 2018, on completion of the BKR transaction. 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.

Committees: Health Safety & Environmental Committee (Chair), Reserves Committee (Chair) and Audit Committee.

Malcolm Webb, Non-Executive Director joined the Board on 30 November 2018, on completion of the BKR transaction. 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 Nomination and Corporate Governance Committee.

Committees: Nomination & Corporate Governance Committee (Chair) and Remuneration Committee.

Kate Coppinger, Non-Executive Director joined the Board on 22 April 2020. Ms. Coppinger has over 20 years' investment banking experience, primarily focused on providing M&A advice to oil and gas companies. Her career includes roles at 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. Her global transaction experience spans Asia through to South America with particular emphasis on the North Sea.

## **CORPORATE GOVERNANCE FRAMEWORK**

### **GOVERNANCE STRUCTURE**

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 ultimate accountability for good governance and maintains 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.

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 Board has five independent, Non-Executive Directors to bring an independent view to the Board. The Chairman has the responsibility of ensuring that the Board discharges its responsibilities and is also responsible for facilitating full and constructive contributions from each member of the Board in determination of the Group's strategy and overall commercial objectives. 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 adopted a code of dealings in securities which the Board regards as appropriate for an AIM listed company and is compliant with the Market Abuse Regulations. The Company takes all reasonable steps to ensure compliance by the directors, employees and agents with the provisions of the AIM rules relating to dealings in securities.

The directors take the issue of bribery and corruption seriously. The directors acknowledge the importance of ensuring that the Company, its employees and those third parties with which the business engages are operating within the requirements of the Bribery Act. 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 adopted by the Company to ensure that all employees and the Board are compliant with the anti-bribery policy.

Since the onset of the COVID-19 crisis the Board has adopted working-from-home procedures and has also sponsored the application of working practices in line with government advice throughout the Company's operations. It has increased monitoring of the potential impacts of the crisis on the Company including reviewing a range of cash flow projections incorporating downside price and other scenarios and is keeping Company strategies and potential opportunities under review.

### **BOARD COMPOSITION**

As at 31 December 2019, the Board of the Company consisted of the Executive Chairman, the Chief Executive Officer and five non-executive Directors. Neil Pike, as the senior independent Non-Executive director along with the other Non-Executive Directors ensure the Board 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.

## **BOARD COMMITTEES AND STRUCTURE**

The Board has established a Nomination and Corporate Governance 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.

### Nomination & Corporate Governance Committee

The Nomination & Corporate Governance Committee assists the Board's oversight of the Company's observance of the QCA Code and the Corporate Governance Guidelines, compliance with the rules of AIM and other relevant corporate governance rules, including compliance with the Company's Share Dealing Code and with AIM rules relating to dealings by directors or employees in the Company's shares. The Committee is also responsible for monitoring the overall effectiveness of the Board and its Committees, proposing to the Board new nominees for election as directors to the Board, determining succession plans and for assessing directors on an ongoing basis.

The Nomination & Corporate Governance 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.

The Committee met three times during 2019 and will meet at least three times, and additionally as required, during the current financial year.

### Audit Committee

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 VP Finance is invited to join the meetings and present his report.

The Audit Committee met four times in 2019 and proposes to meet at least two 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 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 2019 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 2019 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.

The Committee met four times during 2019 and proposes to meet quarterly during the next financial year. The Committee is chaired by Trevor Garlick and its other members are Ian Vann and Mitch Flegg. The head of VP Operations is invited to attend the meeting and present his report.

#### 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 Non-Executive Directors held one formal meeting during 2019.

The Directors' attendance at scheduled Board meetings and Board committees during 2019 is detailed in the table below:

<b>Director</b>	<b>Board</b>	<b>Audit</b>	<b>Remuneration</b>	<b>Nomination &amp; Corporate Governance</b>	<b>HSE</b>	<b>Reserves</b>
A Craven Walker (Chairman of the Board)	14*	3^	1^	3	-	-
N Pike	14	4*	5	3	-	-
I Vann	14	4	5*	2^	4	1
M Flegg	14	-	5^	2^	4	1
M Webb	13	-	4	3*		-
T Garlick	14	4	-	1^	4*	1*
<b>Total meetings</b>	<b>14</b>	<b>4</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>1</b>

Notes: 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.

\*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 is evaluated on a regular basis.

## **BOARD EVALUATION/REVIEW OF BOARD'S EFFECTIVENESS**

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

The Company currently conducts an informal Board self-evaluation process on an ad hoc basis. The Non-Executive Directors met formally once during 2019. At this meeting, the size, structure, performance, leadership and effectiveness of both the Board and Committees were evaluated. The Board considers that it functions effectively and the need for formal Board evaluation has not been considered necessary to date.

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.

There is a strong flow of communication between the directors, and in particular between the CEO and Chairman, with consideration being given to both standing agenda items and the strategic and operational needs of the business. Comprehensive board papers are circulated well in advance of meetings, giving directors due time to review the documentation and enabling an effective meeting. Minutes are drawn up to reflect the true record of the discussions and decisions made. Resulting actions are tracked for appropriate delivery and follow up.

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 (Nomad), auditors and solicitors as and when required. The Company's Nomad provides an annual board room training. 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 Company Secretary helps keep the Board up to date with developments in corporate governance and liaises with the Nomad on areas of AIM requirements. The Company Secretary has frequent communication with both the Chairman and CEO and is available to other members of the Board as required. 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 Nomination & Corporate Governance Committee regularly monitors 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 Nomination & Corporate Governance Committee is mindful of the Board's performance and composition together with the performance of individual directors and senior management.

## **MATTERS RESERVED FOR THE BOARD**

The Board retains full and effective control over the Company and is responsible for the Company's strategy and key financial and compliance issues. There are certain matters that are reserved for the Board and they include but are not limited to:

### **Strategy and Management**

Approval of: long-term objectives; commercial strategic aims; annual operating and capital expenditure budgets; extending the Company's activities into new business; any decision to cease to operate all or any material part of the Company's business.

### **Structure and Capital**

Capital structure; major changes to the Company's corporate structure; changes to the management and control structure; change to the Company's listing; alteration of the Company's articles of association; change in the Company's accounting reference date, registered name or business name.

### **Financial Reporting and Controls**

Approval of: finance reports interim management statements and any other preliminary announcement of the final results; annual reports and accounts; dividend policy and declaration of any dividend and significant changes in accounting policies/practice.

### **Internal Controls**

Ensuring maintenance of a sound system of internal control and risk management.

### **Finance**

Raising new capital and confirmation of major financing facilities; recommendation of dividends; operating and capital expenditure budgets; granting of security over any material Company asset.

### **Contracts**

All contracts above £3m; major capital contracts over £3m; contracts which are material or strategic; contracts outside of the approved budget and not in the ordinary course of business; major investments or any acquisitions/disposals and transactions with Directors or other related parties which are not in the ordinary course of business.

### **Communications**

Approval of resolutions and documentation put forward to shareholders; approval of circulars, prospectuses and listing particulars and approval of press releases concerning matters decided by the Board

### **Board membership and other appointments**

Director and senior management appointments and the Company's succession planning is evaluated on a regular basis.

### **Remuneration**

Determining the remuneration policy for the directors, senior executives and all staff and the remuneration of the Non-Executive directors. Introduction of new share incentive plans or major changes to existing plans, to be put to shareholders for approval.

### **Delegation of Authority**

Division of responsibilities between the Chairman, the Chief Executive and Executive Directors; delegated levels of authority, including the Chief Executive's authority limits; establishment of Board Committees and approval of terms of reference of Board Committees.

### **Corporate Governance Matters**

Review of the Company's overall corporate governance arrangements.

## **Other**

Policies including the share dealing code; appointment or change of the Company's principal professional advisers and auditors; overall levels of insurance for the Company; material litigation; any decision likely to have a material impact on the Group or Company from any perspective including, but not limited to, financial, operational, strategic or reputational; matters reserved for Board decisions and which the Board considers suitable for delegation are contained in the terms of reference of its Committees; and the grant of options, warrants or any other form of security convertible into shares.

## **NOMINATION AND CORPORATE GOVERNANCE COMMITTEE REPORT**

The Nomination and Corporate Governance 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 comprises Malcolm Webb (Non-Executive director and Committee Chairman), Neil Pike (Non-Executive director) and Antony Craven Walker (Executive Chairman of the Company).

### **The Role of the Committee**

The Committee is responsible for:

- Assisting the Board's oversight of the Company's observance of the QCA Code and the Corporate Governance Guidelines;
- Ensuring the Company is compliant with the rules of AIM and other relevant corporate governance rules, including compliance with the Company's Share Dealing Code and with the AIM Rules relating to dealings by directors or employees in the Company's shares.
- 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 and assessing directors on an ongoing basis

### **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 and input for the Company's plans for succession. Whilst they continue to serve on the Board they stand for re-election annually at the Company's Annual General Meetings and are considered to be providing independent advice and oversight in both character and judgement.

## **2019**

In 2019 the Committee reviewed and refreshed the Committee's terms of reference to be brought in line with the Committees current responsibilities.

The Committee also evaluated the composition of the Board and agreed that whilst members of the Committee should continue to review candidates for future vacancies or succession planning, no substantial changes should be made to the Board during 2019.

## **2020 looking forward**

The Committee, which has so far met once in 2020 and aims to meet three times during the year, will pay particular attention to Board structure and succession planning this year with one new Board appointment made.

*“At Serica we value the practical approach to corporate governance embodied in the QCA Code as we recognise that good governance supports and enables sustainable corporate growth and development. In essence it is about having the right team doing the right things to deliver value for our shareholders.”*

Malcolm Webb  
Chairman of the Nominations and Corporate Governance Committee  
22 April 2020

## **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. As Chair of the Committee, during the financial year, I have reviewed and considered the recent recommendations of the Quoted Companies Alliance Corporate Governance Code, Audit Guide published in September 2019.

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.

## **2019**

The Committee 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 on page 34.

- 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 re-appointed at the Company's annual general meeting. The Serica Group fee to EY for the financial year to 31 December 2019 is £367,000. 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 fifteen years, the Committee are comfortable that EY's audit remains independent.

## **2020**

In considering the implications of the COVID-19 crisis for the Company, the Audit Committee has placed particular emphasis upon testing going concern assumptions. This has included the stress testing of key assumptions including forecast pricing and production levels. Focus has also been placed upon additional disclosures particularly with respect to the basis of preparation of the financial statements (note 2) and post-balance sheet events (note 33).

## **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  
22 April 2020

## **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 comprises of Trevor Garlick (Non-Executive director), Ian Vann (Non-Executive director and previous chairman of the Committee) and Mitch Flegg (CEO 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.

## **2019**

- Reviewed the Company's procedures for providing information to the qualified reserves auditors who reported on reserves data.
- Met with management and the two qualified reserves auditors to review the reserves data and the auditor's annual reserves report.

- Reviewed proposals to engage one UK-based reserves auditor instead of retaining two US-based reserves auditors and recommended approval.
- Reviewed and recommended to the Board approval of the content and filing of the Company's annual statement of reserves data and other oil and gas information.

## **2020 Looking Forward**

- Meet new independent reserves auditor and review reserves data, process undertaken and report.
- Review the process for establishing the audit terms of reference and supplying information to the reserves auditor.
- Make recommendation to the Board regarding the Company's annual statement of reserves data and other oil and gas information.

Trevor Garlick  
Chairman of the Reserves Committee  
22 April 2020

## **DIRECTORS' REMUNERATION REPORT**

### **The Remuneration Committee**

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

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.

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 across the Company

The Committee held five meetings during 2019. 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:

- Reviewing and approving the Company's overall compensation philosophy and programs.
- 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 2019

The Committee:

- reviewed and agreed the 2019 employee salary increases along with an increase in offshore allowances and 2019 bonus scheme.
- contributed to the review of the Company's various pension schemes and consolidation of those schemes.
- provided input to the employee consultation process following the 12-month period post the Company's acquisition of BP's interest in Bruce, Keith and Rhum.
- considered and agreed employee contract variations to allow standardised employee terms of conditions of employment.

### Looking ahead 2020

- Reviewing and agreeing the cash bonus to be awarded to employees in respect of the financial year 2019.
- Considering and agreeing any discretionary bonuses to be awarded to senior management.
- Considering and agreeing a programme for the grant of any LTIP awards for 2020.
- Proposing and agreeing the remuneration packages for executive directors for 2020.
- Reviewing and agreeing salary proposals for all employees.
- Considering a share save scheme for 2020.
- Agreeing a framework for the cash bonus plan 2020.

### Executive Directors' service contracts.

The Company's policy on Directors' service contracts are indicated below:

Director	Effective term	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 single total figure of remuneration and breakdown for each Executive director paid for the 2019 financial year.

	Anthony Craven Walker	Mitch Flegg
Salary	£400,000	£400,000
Annual Bonus	Nil	£124,000
Benefits	£19,194	Nil
Pension	Nil	£40,000
Total	£419,194	£564,000

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

## **ADDITIONAL DETAILS**

### Share Option Plans

The Company operates three discretionary incentive share option plans: (i) 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, (ii) the 2017 Serica Energy plc Company Share Option Plan ("2017 CSOP"), which was adopted by the Board on 20 November 2017, and (iii) 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 and employees of the Group. The directors intend that the maximum number of ordinary shares which may be utilised across all of the Company's share option plan 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 and employees 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 in November 2017 under IFRS 2 in accordance with the 30 November 2017 Admission Document:

**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. The awards below, outstanding as at 31 December 2019, 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.

<b>Director/Employees</b>	<b>Total number of shares granted subject to Deferred Bonus Share Awards</b>
Antony Craven Walker	225,000
Mitch Flegg	225,000
Employees below Board level (in aggregate)	414,000
	<hr/>
	864,000

**Performance Share Awards** 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.

<b>Director/Employees</b>	<b>Total number of shares granted subject to Performance Share Awards</b>	
	2019	2018
Antony Craven Walker	411,067	1,500,000
Mitch Flegg	411,067	1,500,000
Employees below Board level (in aggregate)	2,913,506	2,250,000
	<b>3,735,640</b>	<b>5,250,000</b>

**Retention Share Awards** are structured as nil-cost options with a vesting date of between 1 and 31 January 2021 and may be exercised up until the tenth anniversary of the date of grant. Retention Share Awards are split as follows: 49,125 Share Value Plan replacement awards and 193,414 other retention awards

<b>Director/Employees</b>	<b>Total number of shares granted subject to Retention Share Awards</b>
Employees below Board level (in aggregate)	242,539

## **NON-EXECUTIVE DIRECTORS**

2019 Non-Executive Director fees

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

### **Ian Vann**

Remuneration Committee Chairman  
22 April 2020

## **HEALTH, SAFETY AND ENVIRONMENT COMMITTEE REPORT**

The Health, Safety and Environment Committee ('Committee') is responsible for matters affecting occupational health, safety and environment, and is primarily focused on ensuring that HSE policies are adopted and applied across the Group.

The Committee 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).

During 2019, the Committee has met quarterly to discuss matters pertaining to Health, Safety and Environmental issues with focus primarily on the operations of the Bruce, Keith & Rhum fields and ensuring that adequate HSE policies are adopted and applied across the Group.

### **2019 Review**

- Evaluated HSE performance against industry standards and acted on Regulator feedback
- Developed and finalised an HSE and Risk Management Plan and closely evaluated HSE performance against the agreed Plan at each meeting
- Received training on HSE legal responsibilities from the Company's HSE legal advisors and made relevant changes based on advice received
- Reviewed major and reportable HSE incidents occurred, investigations led and lessons learned at each meeting
- Agreed HSE performance metrics linked to the Company bonus scheme
- Agreed to draft a plan to benchmark and reduce carbon intensity/emissions

During 2020, the Committee plans to develop a 2020 HSE plan, continue to review the on-going HSE procedures and culture, evaluate HSE performance against industry standards, evaluate performance against the 2020 plan, agree a HSE bonus scorecard for 2020 to be linked to the Company bonus scheme for 2020 and ensure that the HSE policy and procedures remain effective. The Committee also plans to place a focus on how the Company can reduce carbon intensity/emissions.

*'The Committee's main role is to assure the Board that the Company has plans in place to maintain and improve a strong health, safety and environmental culture. The Committee shall continue to help to ensure that the Company continues to operate its assets safely and reduce our emissions.'*

Trevor Garlick  
Chairman of the Health and Safety and Environment Committee  
22 April 2020

## **Directors' Statement under Section 172 (1) of the Companies Act 2006**

The Section 172 (1) of the Companies Act obliges the Directors to promote the success of the Company for the benefit of the Company's members as a whole.

The section specifies that the Directors must act in good faith when promoting the success of the Company and in doing so have regard (amongst other things) to:

- a. the likely consequences of any decision in the long term,
- b. the interests of the Company's employees,
- c. the need to foster the Company's business relationship with suppliers, customers and others,
- d. the impact of the Company's operations on the community and environment,
- e. the desirability of the Company maintaining a reputation for high standards of business conduct, and
- f. the need to act fairly as between members of the Company.

The Board of Directors is collectively responsible for the decisions made towards the long-term success of the Company and how the strategic, operational and risk management decisions have been implemented throughout the business is detailed in the Strategic Report.

### **Employees**

Our employees are one of the primary assets of our business and the Board recognises that our employees are the key resource which enables delivering Company's vision and goals. Annual pay and benefit reviews are carried out to determine whether all levels of employees are benefitting fairly and to retain and encourage skills vital for the business. The Remuneration Committee oversees and makes recommendations of executive remuneration and any long-term share awards as detailed in the Remuneration Committee Report on page 40. The Board encourages management to improve employee engagement and to provide necessary training in order to use their skills in the relevant areas in the business. The Health, Safety and Environmental Committee reviews the health and safety measures implemented in the business premises on a quarterly basis and improvements are continuously recommended for better practice, further details are provided in the Health, Safety and Environmental Committee report on page 44.

The employees are informed of the results and important business decisions and are encouraged to feel engaged and to improve their career potential.

### **Suppliers, Customers and Regulatory Authorities**

The Board acknowledges that a strong business relationship with suppliers and customers is a vital part of the growth. Whilst day to day business operations are delegated to the executive management, the Board sets directions with regard to new business ventures. The Board upholds ethical business behaviour across all of the Company's activities and encourages management to seek comparable business practices from all suppliers and customers doing business with the Company. We value the feedback we receive from our stakeholders and we take every opportunity to ensure that where possible their wishes are duly considered.

### **Community and Environment**

The Board periodically reviews the Health and Safety measures implemented by the Health, Safety and Environmental Committee in the business premises and improvements are recommended for better practices. The Company recognises and is aware of the potential impact that it may have on the environment. Serica recognises

the importance of Environmental and Social and Corporate Governance (ESG), further details are contained in the ESG Report on page 47.

### **Maintaining High Standards of Business Conduct**

The Company is incorporated in the UK and governed by the Companies Act 2006. The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the 'QCA Code') and the Board recognises the importance of maintaining a good level of corporate governance, which together with the requirements to comply with the AIM Rules ensures that the interests of the Company's stakeholders are safeguarded. The Board has prompted that ethical behavior and business practices should be implemented across the business. Anti-corruption and anti-bribery training are compulsory for all staff and contractors and the anti-bribery statement and policy is contained on the Company's website. The Company's expectation of honest, fair and professional behaviour is reflected by this and there is zero tolerance for bribery and unethical behaviour by anyone representing the Company.

The importance of making all employees feel safe in their environment is maintained and a Whistleblowing Policy is in place to enable staff to confidentially raise any concerns freely and to discuss any issues that arise. Strong financial controls are in place and are well documented.

### **Shareholders**

The Board places equal importance on all shareholders and recognises the significance of transparent and effective communications with shareholders. As an AIM listed company there is a need to provide fair and balanced information in a way that is understandable to all stakeholders and particularly our shareholders.

The primary communication tool with our shareholders is through the Regulatory News Service, ("RNS") on regulatory matters and matters of material substance. The Company's website provides details of the business, investor presentations and details of the Board and Board Committees, changes to major shareholder information, QCA Code disclosure updates under AIM Rule 26. Changes are promptly published on the website to enable the shareholders to be kept abreast of Company's affairs. The Company's Annual Report and Notice of Annual General Meetings (AGM) are available to all shareholders. The Interim Report and other investor presentations are also available on our website.

Investor events are also arranged with shareholders throughout the year which presents an opportunity for shareholders to speak with the executive directors in a formal environment and in more informal one to one meetings. By providing a variety of ways to communicate with investors the Company feels that it reaches out to engage with a wide range of its stakeholders.

On behalf of Board

**Antony Craven Walker**

Executive Chairman

22 April 2020

## **Environmental and Social and Corporate Governance (ESG)**

ESG is a term that is becoming synonymous with business sustainability and the societal impact of business. In recent years ESG reporting has become an ever increasingly important consideration for investors as they continue to place increasing value on aspects of the business performance that would not traditionally be reported on in the Annual Financial Report but, nevertheless have potential implications for investors such as emissions data, environmental non-compliances, anti-slavery and corruption policies and performance and stakeholder grievances.

During our first year of operations, Serica has successfully integrated ESG into our operational and planning mindset. This is driving us to conduct and plan operations in a manner that not only reduces the impact we are having on the environment but also reduces inefficiencies, serves the communities in which we operate and ensures our staff are well looked after and managed.

### **Our approach**

As an oil and gas exploration and production company, we are increasingly cognizant of stakeholder interest in the ethos and sustainability for our business, and we strive for continuous improvements in all aspects of ESG performance. By nurturing our own internal ESG culture and continually engaging with industry bodies and peers we are maintaining currency in the most applicable and impactful ESG principles which are continually embedding in our strategy, management processes and business operations.

Serica's Board of Directors assesses the Company's ESG practices and performance and ensures that the necessary resources are in place to support that vision as recently demonstrated by the appointment of a new vice president role of VP ESG and Business Innovation.

In order to demonstrate our transparency and set a benchmark for our future ESG performance, in 2019 we produced our first Serica ESG Report. The report was structured around the United Nations Sustainable Development Goals (<https://unsdg.un.org/>) and utilised the Global Reporting Initiatives (GRI) Reporting Performance Standards which, as outlined on the GRI website, are the most widely adopted global standards for sustainability reporting. The GRI Standards represent global best practice for reporting on a range of economic, environmental and social impacts.

Serica chose to report against the GRI Core Option. The Core Option presents a refined list of essential reporting elements deemed material to the Company and its stakeholders. The ESG report explains in more detail our rationale on materiality and gives the information disclosed to the GRI.

Our operations are controlled via a Business Management System comprising a set of policies and guidelines, which help us monitor, evaluate and improve our daily activities, internal control systems and procedures.

### **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 safe, 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 a safe 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) 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 to ensure safe working 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**

At Serica we work hard to reduce our environmental impacts through the careful planning and management of operations. Reducing our atmospheric emissions, preventing leaks, seeps and spills offshore and decreasing the volume of harmful chemicals we utilise offshore are all key to reducing our environmental impact. Serica also participates in industry initiatives to reduce the environmental impact of the supply chain and consistently contributes to industry environmental working groups.

## **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 ensure international industry best practice is implemented in the area of risk assessment and management.

The Board of Directors plays a fundamental stewardship role in ensuring that the Company conducts 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 significant businesses, Serica is highly conscious of the part we play in the local economy. Currently, over 95% 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 our suppliers.

On behalf of the Board

AMBA Secretaries Limited

22 April 2020

## **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 2019 and of the group's profit for the year then ended;
- ▶ the group financial statements and parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ▶ the group financial statements and parent company 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 2019	Balance sheet as at 31 December 2019
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 33 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 33 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	<ul style="list-style-type: none"> <li>• Measurement of BKR contingent consideration</li> <li>• Assessment of commercial reserves and its impact on the Financial Statements</li> <li>• Impact of Covid-19 and low oil and gas prices on the assessment of going concern</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>• We performed an audit of the complete financial information of two components</li> <li>• The components where we performed full audit procedures accounted for 100% of Profit before tax, 100% of Revenue and 99% of Total assets.</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall group materiality of £3.2 million which represents 3% of the Group's profit before tax.</li> </ul>

### Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<b>Measurement of BKR contingent consideration</b>  <i>Refer to the Accounting policies (page 73); and Note 23 of the Consolidated Financial</i>	Our procedures focused primarily on the risks relating to the contingent consideration model, assumptions and judgements associated with the estimation of the consideration. These included:	At the April 2020 meeting of the Audit Committee, we confirmed that we had completed our audit procedures in respect of the accounting for

<p><i>Statements (page 98)</i></p> <p>During 2018, the Group completed a transaction whereby Serica acquired a 98% interest in the Bruce and Keith (BKR) fields and a 50% interest in the Rhum field for a combination of cash, deferred and contingent consideration. The contingent consideration is remeasured at fair value at each reporting date with changes in the fair value during the year being reflected in the income statement.</p> <p>At 31 December 2019, the fair value of the BKR contingent consideration is £148.1 million and the change in fair value since the prior year that is recorded in the income statement represents a charge of £21.8 million. There is a significant judgement and estimation involved in determining the contingent element of the consideration, and its fair value, which is based on a share of future cashflows from the fields.</p> <p>The fair value calculations are complex as most of the contingent consideration is dependent upon future commodity prices 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.</p> <p>Given this, we believe that the measurement of contingent consideration carries significant risk of material misstatement.</p>	<ul style="list-style-type: none"> <li>• making enquiries of management and those who participated in the preparation of the valuation to understand the terms of the contracts, whether there had been any changes to the agreements after the 2018 acquisition and obtained an understanding of the process and identified key controls;</li> <li>• ensuring the mechanics of the model are consistent with the terms of the relevant agreements;</li> <li>• checking the integrity of the model and testing its mathematical accuracy;</li> <li>• using our internal valuation specialists to assist us in assessing the key external assumptions and inputs used in measuring the fair value of the contingent consideration payable. This included commodity price curves, discount rates and inflation;</li> <li>• assessing the reasonableness of forecast production and cost profiles, decommissioning and taxation;</li> <li>• assessing management's estimation of commercial oil and gas reserves used in the contingent consideration calculation (see KAM on assessment of commercial reserves);</li> <li>• performing sensitivity analysis in relation to significant assumptions applied by management in the valuation;</li> <li>• confirming the cash consideration paid during the year to relevant transaction agreements and bank documentation;</li> <li>• 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;</li> <li>• confirming consistency of assumptions with other areas of the financial statements; and</li> </ul>	<p>the contingent consideration and were satisfied that management had followed a robust process in estimating the fair value as at the balance sheet date.</p> <p>We concluded that the value of the contingent consideration recorded as a liability at year end and the movement in the liability from 2018, recorded in the income statement, as well as payments made in the year were accounted for appropriately. In addition, we concluded that the disclosures made in relation to the estimates and estimation uncertainty involved with the valuation were appropriate.</p>
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	<ul style="list-style-type: none"> <li>• assessing the adequacy of the related disclosures in Note 23 to the financial statements.</li> </ul>	
<p><b>Assessment of commercial reserves and its impact on the Financial Statements</b></p> <p><i>Refer to note 2 accounting policies section “Use of judgement and estimates and key sources of estimation uncertainty” (page 66)</i></p> <p>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&amp;A’) charges; and valuation of the contingent consideration associated with the 2018 BKR acquisition.</p> <p>As described in note 16 to the consolidated financial statements, oil and gas properties amounted to £324.9m and have an associated DD&amp;A charge of £52.6m. At 31 December 2019, the fair value of contingent consideration is £148.1m and the impact on the income statement of the change in fair value is £21.8m.</p> <p>The estimation of oil and natural gas reserves and resources is a significant area due to the technical uncertainty in assessing quantities.</p> <p>Reserves and resources are also a fundamental indicator of the future potential of the group’s performance.</p>	<p>We carried out the following procedures:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• assessing the competence and objectivity of these experts, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation;</li> <li>• obtaining confirmation directly from Lloyds Register that they are independent from Serica and have performed their procedures in line with the guidelines set out by the Society of Petroleum Engineers;</li> <li>• confirming that any material changes in reserves and resources were made in the appropriate accounting period;</li> <li>• 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 contingent consideration model, preparation of the cash flow forecasts for the assessment of the going concern assumption, the determination of the deferred tax asset and accounting for DD&amp;A.</li> </ul>	<p>We did not identify any exceptions as a result of our audit procedures.</p> <p>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.</p>
<p><b>Impact of Covid-19 and low oil and gas prices on the assessment of going concern</b></p> <p><i>Refer to note 2 of the financial statements “accounting policies” (page 65) and note 33 of the financial statements “post balance sheet events” (page 117).</i></p> <p>The global Covid-19 pandemic</p>	<p>In assessing the appropriateness of the going concern assumption used in preparing the financial statements, we have performed the following procedures:</p> <ul style="list-style-type: none"> <li>• confirmed our understanding of Serica’s going concern assessment process as well as the control environment implemented by management;</li> </ul>	<p>In April 2020, we reported that, based on our testing performed, in our view the going concern assumption adopted in the 2019 financial statements remains appropriate after considering the potential impact of Covid-19 and the low</p>

<p>at the start of 2020 has affected business and economic activity in the United Kingdom where the group operates. The range of potential outcomes are uncertain; however, the virus outbreak is causing significant business disruption and a significant decrease in demand for oil and gas products globally.</p> <p>In addition, an international dispute between OPEC+ countries in early March 2020 triggered a price war. The resultant over-supply of oil and gas to global markets, coupled with the fall in demand due to the outbreak of Covid-19, has resulted in low oil and gas prices.</p> <p>The outbreak and current market over-supply have; significantly increased the uncertainties inherent in the going concern assessment including key assumptions such as future commodity prices and production volumes.</p> <p>Management has performed additional stress testing to support the going concern assessment to evaluate the impact of plausible downside scenarios. These include scenarios that reflect extended low oil and gas prices throughout 2020 and 2021, which are at the low end/lower than current forecasts and forward prices, and a three-month production shut-in to reflect potential operational or Covid-19 related issues that could potentially impact the Group.</p> <p>Management has also performed reverse stress testing, which is designed to model the conditions that would have to exist such that the Group required additional cash resources or had to rely on mitigating factors in 12 months-time. These included an adverse production shut-in scenario and a low-price environment, reflecting oil and</p>	<ul style="list-style-type: none"> <li>• checked the mathematical accuracy of management's cash flow forecast and stress tests;</li> <li>• verified the opening cash balance, that no cash inflows from debt funding are assumed and that the final net cash position excludes £12 million of cash held in a restricted account as security against letters of credit issued in respect of certain decommissioning liabilities;</li> <li>• challenged the reasonableness of the key assumptions as well as their consistency with other areas of the audit, which included benchmarking management's oil and gas price assumptions to historic trends, recent bank and broker forecasts and forward price curves. We also considered the circumstances that could lead to a significant or prolonged production shut in and also the potential impact of actions of external stakeholders and trading counterparties on management's assessment;</li> <li>• considered the appropriateness of the oil and gas reserves assumptions on which management's assessment is based and that the profiles were consistent with those used in other areas of the financial statements (see KAM on assessment of commercial reserves);</li> <li>• performed sensitivity analysis to consider the impact of key underlying inputs such as a reduction in commodity prices and lower production volumes;</li> <li>• challenged the likelihood of management's ability to execute mitigating actions, as required, to continue its business activities in the severe downside scenarios simulated in their sensitivity analysis and reverse stress testing; and</li> <li>• reviewed the appropriateness of management's going concern disclosures in the annual report and financial statements.</li> </ul>	<p>oil and gas price environment.</p> <p>We confirmed that management's disclosure appropriately describes the risks and mitigation associated with Serica's ability to continue to operate as a going concern. .</p>
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<p>gas price assumptions for the next 12 months that are considerably lower than the latest forward prices for 2020 and 2021 or market prices that have been experienced for the last 10 years.</p> <p>In severe downside scenarios, management have also identified key mitigating actions including the ability to defer planned capital expenditure and reduce variable operating costs, as required.</p> <p>Under both management's base case cash flow forecasts and stress testing scenarios, the Group is expected to remain cash flow positive for the period of the going concern assessment.</p>		
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In the prior year, our auditor's report included a key audit matter in relation to 'Accounting for Business Combination'. We removed this in the current year as with the exception of adjustments to the PPA, the business combination accounting was completed in the prior year. With the exception of the measurement of contingent consideration significant audit effort and judgement was not applied in determining the current year adjustments.

## **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 two components, which represent the principal business units within the Group.

We performed an audit of the complete financial information of these two business units as these were "full scope components" selected based on their size or risk characteristics.

The components where we performed audit procedures accounted for 100% (2018: 100%) of the Group's Profit before tax, 100% (2018: 100%) of the Group's Revenue and 99% (2018: 100%) of the Group's Total assets.

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**



In the prior year, we included three additional entities as specific scope components. Following the completion of the BKR transaction, the assets held in these three entities are no longer material to the group making up less than 1% of total assets.

### **Involvement with component teams**

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. The audit of one of the full scope components in 2019 was performed by our component team based in Aberdeen. The other full scope component was audited by the primary team.

The Group audit team designed a programme of planned interactions with the Aberdeen component team including that the Senior Statutory Auditor visited the component team. The primary team interacted regularly with the component team throughout the year and met regularly with the audit partner responsible for the component audit work. The primary team had access to the underlying audit working papers of the component, reviewed key working papers and were responsible for the scope and direction of the audit process. The Senior Statutory Auditor, and other senior members of the primary team, also met with local management during the year and attended the year end audit closing meeting between the component auditors and management.

A site visit to Aberdeen was planned to take place during the year end audit period. However, due to travel restrictions resulting from the outbreak of the Covid-19 virus, this visit could not be performed. However, because of the procedures performed, and interactions made throughout the year with both the component auditors and local management, and the additional procedures performed at group level, this allowed the primary team to exercise sufficient oversight of and involvement in the work of the component audit team. These procedures included direct review of component workpapers remotely, regular component calls over the course of the audit and involvement of the primary audit team in component team meetings with management.

### **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 £3.2 million (2018: £1.1 million), which is 3% (2018: 1%) of profit before tax (2018: equity). We used 5% of forecast profit before tax at the planning phase of the audit. We believe that, in the current year, profit before tax is the most appropriate measurement basis compared to equity as profits are a principal consideration of the users of the financial statements. In the prior year, profits were 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 2019.

We determined materiality for the Parent Company to be £2.1 million (2018: £5.0 million), which is 1% (2018: 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. Any balances in the Parent Company financial statements that were relevant to our audit of the consolidated group were audited using an allocation of group performance materiality.

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 50% (2018: 75%) of our planning materiality, namely £1.6 million (2018: £0.8 million). We have set performance materiality at this percentage after taking into account the Group's history of misstatements identified during the audit, 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 performance materiality allocated to the components was £1.7 million (2018: £0.6 million).

### **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 £0.16 million (2018: £0.05 million), 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 25, 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 50, 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  
22 April 2020*

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

	<i>Note</i>	<b>2019</b> <b>£000</b>	2018 £000 *restated
<b>Continuing operations</b>			
<b>Sales revenue</b>	5	250,533	35,708
Cost of sales	6	(164,748)	(15,690)
<b>Gross profit</b>		<hr/> 85,785	20,018
Other income/(expense)	7	10,618	(1,554)
Pre-licence costs		(566)	(217)
Impairment and write-offs of E&E assets	15	(80)	2,450
Administrative expenses		(5,963)	(3,644)
Foreign exchange (loss)/gain		(1,020)	118
Share-based payments	29	(1,094)	(367)
BKR transition costs	27	-	(8,814)
<b>Operating profit before net finance revenue, tax and transaction costs</b>		<hr/> 87,680	7,990
Change in fair value of BKR financial liability	23	21,771	-
Bargain purchase gain on BKR acquisitions	27	-	33,673
BKR transaction costs	27	-	(2,102)
Finance revenue	10	571	201
Finance costs	11	(1,252)	(282)
<b>Profit before taxation</b>		<hr/> 108,770	39,480
Taxation (charge)/credit for the year	12a)	(44,750)	12,005
<b>Profit for the year</b>		<hr/> <hr/> 64,020	51,485
<b>Earnings per ordinary share - EPS</b>			
Basic EPS on profit for the year (£)	13	0.24	0.20
Diluted EPS on profit for the year (£)	13	0.23	0.19

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

**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

		<b>Group</b>		<b>Company</b>	
	<i>Note</i>	<b>2019</b>	2018	<b>2019</b>	2018
		<b>£000</b>	£000	<b>£000</b>	£000
			*restated		*restated
<b>Non-current assets</b>					
Exploration & evaluation assets	15	3,652	3,183	-	-
Property, plant and equipment	16	325,404	373,721	387	-
Investments in subsidiaries	17	-	-	105,256	105,256
		<u>329,056</u>	<u>376,904</u>	<u>105,643</u>	<u>105,256</u>
<b>Current assets</b>					
Inventories	18	4,671	4,284	-	-
Trade and other receivables	19	35,906	52,976	93,330	86,234
Derivative financial asset	20	6,880	138	-	-
Term deposits	21	-	1,000	-	1,000
Cash and cash equivalents	21	101,825	42,103	11,348	19,710
		<u>149,282</u>	<u>100,501</u>	<u>104,678</u>	<u>106,944</u>
<b>TOTAL ASSETS</b>		<u>478,338</u>	<u>477,405</u>	<u>210,321</u>	<u>212,200</u>
<b>Current liabilities</b>					
Trade and other payables	22	(24,600)	(35,229)	(1,738)	(3,219)
Financial liabilities	23	(45,351)	(90,307)	-	-
Provisions	24	(1,848)	(1,848)	-	-
<b>Non-current liabilities</b>					
Financial liabilities	23	(110,108)	(164,488)	-	-
Provisions	24	(22,590)	(22,647)	-	-
Deferred tax liability	12d)	(75,831)	(31,081)	-	-
<b>TOTAL LIABILITIES</b>		<u>(280,328)</u>	<u>(345,600)</u>	<u>(1,738)</u>	<u>(3,219)</u>
<b>NET ASSETS</b>		<u>198,010</u>	<u>131,805</u>	<u>208,583</u>	<u>208,981</u>
Share capital	26	181,385	180,294	153,686	152,595
Merger reserve	17	-	-	88,088	88,088
Other reserve		17,818	16,724	17,818	16,724
Accumulated deficit		(1,193)	(65,213)	(51,009)	(48,426)
<b>TOTAL EQUITY</b>		<u>198,010</u>	<u>131,805</u>	<u>208,583</u>	<u>208,981</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

The loss for the Company was £2.6 million for the year ended 31 December 2019 (2018: profit of £128.0 million). 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 22 April 2020

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**

	<i>Note</i>	<b>Share capital £000</b> <i>*restated</i>	<b>Other reserve £000</b> <i>*restated</i>	<b>Accum'd deficit £000</b> <i>*restated</i>	<b>Total £000</b> <i>*restated</i>
At 1 January 2018		169,984	15,428	(109,581)	75,831
*Translation effect		10,102	929	(7,117)	3,914
Profit for the year		-	-	51,485	51,485
Total comprehensive income		-	-	51,485	51,485
Share-based payments	29	-	367	-	367
Issue of share capital	26	208	-	-	208
At 31 December 2018		180,294	16,724	(65,213)	131,805
Profit for the year		-	-	64,020	64,020
Total comprehensive income		-	-	64,020	64,020
Share-based payments	29	-	1,094	-	1,094
Issue of share capital	26	1,091	-	-	1,091
At 31 December 2019		181,385	17,818	(1,193)	198,010

**Company**

	<b>Share capital £000</b> <i>*restated</i>	<b>Merger reserve £000</b> <i>*restated</i>	<b>Other reserve £000</b> <i>*restated</i>	<b>Accum'd deficit £000</b> <i>*restated</i>	<b>Total £000</b> <i>*restated</i>
At 1 January 2018	143,837	-	15,428	(83,434)	75,831
*Translation effect	8,550	-	929	(4,952)	4,527
Profit for the year	-	-	-	128,048	128,048
Total comprehensive income	-	-	-	128,048	128,048
Share-based payments (note 29)	-	-	367	-	367
Issue of share capital (note 26)	208	-	-	-	208
Transfers	-	88,088	-	(88,088)	-
At 31 December 2018	152,595	88,088	16,724	(48,426)	208,981
Profit for the year	-	-	-	(2,583)	(2,583)
Total comprehensive income	-	-	-	(2,583)	(2,583)
Share-based payments (note 29)	-	-	1,094	-	1,094
Issue of share capital (note 26)	1,091	-	-	-	1,091
Transfers	-	-	-	-	-
At 31 December 2019	153,686	88,088	17,818	(51,009)	208,583

\* As described in Note 3, the presentation currency for the Group has been changed to £ from 1 January 2019, with retrospective effect on comparative figures. Equity per 1 January 2018 has been translated to £ using the £/US\$ closing rate applicable for the same date. As a result, a translation effect occurs for each component of equity. The translation effect related to share capital, other reserve and accumulated deficit is shown as a separate item in the statement of change in equity for 2018.

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

For the year ended 31 December

	<b>Group</b>	2018	<b>Company</b>	2018
<i>Note</i>	<b>2019</b>	£000	<b>2019</b>	£000
	<b>£000</b>	*restated	<b>£000</b>	*restated
<b>Operating activities:</b>				
Profit/(loss) for the year	64,020	51,485	(2,583)	128,048
Adjustments to reconcile profit for the year to net cash flow from operating activities:				
Taxation charge/(credit)	44,750	(12,005)	-	-
BKR transition and transaction costs	-	10,916	-	-
Change in BKR fair value liability	(21,771)	-	-	-
Bargain purchase gain on BKR acquisitions	-	(33,673)	-	-
Net finance costs/(income)	681	81	(176)	(201)
Depreciation and depletion	52,631	6,153	-	-
Oil and NGL over/underlift	6,969	(3,609)	-	-
Impairment and write-offs of E&E assets	80	(2,450)	-	-
Unrealised and realised hedging (gains)/losses	(6,742)	1,827	-	-
Write-back of loans and investments	-	-	-	(129,543)
Share-based payments	1,094	367	1,094	367
Other non-cash movements	638	(118)	(149)	(85)
Cash outflow on BKR transition/transaction	-	(12,796)	-	-
Decrease/(increase) in trade and other receivables	6,147	(36,564)	1,100	(408)
(Increase)/decrease in inventories	(386)	25	-	-
(Decrease)/increase in trade and other payables	(11,234)	20,448	(1,690)	1,585
<b>Net cash in/(out)flow from operations</b>	<b>136,877</b>	<b>(9,913)</b>	<b>(2,404)</b>	<b>(237)</b>
<b>Investing activities:</b>				
Interest received	571	201	225	201
Purchase of E&E assets	(549)	(1,351)	-	-
Purchase of property, plant and equipment	(4,736)	(4,220)	(178)	-
Cash (out)/inflow from business combination	27 (57,259)	22,238	-	-
Cash outflow arising on asset acquisitions	-	(2,102)	-	-
Changes in term deposits	1,000	3,224	1,000	-
(Payments)/receipts from Group subsidiaries	-	-	(8,196)	5,566
<b>Net cash flow from investing activities</b>	<b>(60,973)</b>	<b>17,990</b>	<b>(7,149)</b>	<b>5,767</b>
<b>Financing activities:</b>				
(Repayments)/proceeds of borrowings	23 (15,673)	12,800	-	-
Proceeds from issue of shares	26 1,091	208	1,091	208
Finance costs paid	(962)	(193)	(49)	-
<b>Net cash flow from financing activities</b>	<b>(15,544)</b>	<b>12,815</b>	<b>1,042</b>	<b>208</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>				
Effect of exchange rates on cash and cash equivalents	28 (638)	250	149	101
Cash and cash equivalents at 1 January	28 42,103	20,961	19,710	13,871
Cash and cash equivalents at 31 December	28 101,825	42,103	11,348	19,710

\*restated from US\$ to £ following change of functional and presentational currency – see note 3



## **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 2019 were authorised for issue by the Board of Directors on 22 April 2020 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 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 2019. 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 2019 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 loss dealt with in the financial statements of the parent Company was £2,583,000 (2018: profit £128,048,000).

#### **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 2019.

The Group and Company financial statements have been prepared on a historical cost basis and following the change in functional and presentational currency from US\$ to £ sterling with effect from 1 January 2019 (see note 3) are presented in £ sterling. All values are rounded to the nearest thousand pounds (£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 2019 the Group held cash and term deposits of £101.8 million which had increased to approximately £108.9 million by 20 April 2020 with the balance at each date including £12.1 million of restricted funds. 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 in a low oil and gas price environment.

The Group regularly monitors its cash, funding and liquidity position. Near term cash projections are revised and underlying assumptions reviewed, generally monthly, and longer-term projections are also updated regularly. Downside price and other risking scenarios are considered. In addition to commodity sales prices the Group is exposed to potential production interruptions and these are also considered under such scenarios. Serica's acquisitions to-date have been structured to reduce post-completion risk and, following completion of the BKR transactions, management has given priority to building a strong cash reserve which can respond to different types of risk.

Following onset of the COVID-19 crisis, and the impact of the dispute between OPEC+ countries on oil and gas prices, we have stress tested future cash flow forecasts for the Group to evaluate the impact of plausible downside scenarios. These include scenarios that reflect extended low oil and gas prices throughout 2020 and 2021, which are at the low end/lower than current forecasts and forward prices, and a three-month production shut-in to reflect potential operational or Covid-19 related issues that could potentially impact the Group. We have also performed reverse stress testing to assist our judgement, which is designed to model the conditions that would have to exist such that the Group required additional cash resources or had to rely on mitigating factors in 12 months-time. These included an adverse production shut-in scenario and low-price environment, reflecting oil and gas price assumptions for the next 12 months that are considerably lower than the latest forward prices for 2020 and 2021 or market prices that have been experienced for the last 10 years. Under all of these scenarios we retain sufficient liquidity in our business.

The impact of low gas prices is partially mitigated by price hedging up to 31 March 2021 for a proportion of projected gas sales volumes, which deliver monthly cash inflows to Serica where market prices are lower than 35 up to 46 pence per therm with the price variations reflecting the periods covered. The BKR net cash flow sharing arrangements vary in line with actual net cash generated and therefore the impact of lower sales prices and production volumes will be shared by Serica and the previous BKR owners. This mitigated the impact of falls in gas prices last year. It continues to mitigate the impact of the erratic oil and gas market conditions prevailing so far this year and remaining payments are expected to be further reduced if low commodity prices are sustained for a significant period.

Serica currently has no borrowings, relatively low operating costs per boe and its limited capital commitments can be funded from existing cash resources. Additionally, we have considered planned cost reductions which provide further resilience against softer commodity prices. In particular, Serica has reduced the level of offshore personnel through deferring non-essential work and has facilitated remote working wherever possible.

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 contingent consideration, determining the fair value of property, plant and equipment on a business combination, 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.

#### Determining the fair value of contingent consideration on BKR acquisitions

The Group determined the fair value of initial contingent consideration payable based on discounted cash flows at the time of the acquisition in 2018 calculated for each separate component of the contingent consideration. The same models and assumptions were 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. In calculating the fair value of contingent consideration on the BKR acquisitions payable as at 31 December 2019, assumptions underlying the calculation were updated from 2018. These included updated commodity prices, production profiles, future opex, capex and decommissioning cost estimates, discount rates, proved and probable reserves estimates and risk assessments. For further details including sensitivities of the calculation to changes in input variables, see note 23.

#### Determining the fair value of property, plant and equipment on business combination

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 Adjustments to fair value assessments reflecting corrections and adjustments based upon further information that became available can then made up to twelve months after completion of the acquisitions (see note 27).

#### Decommissioning provision

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 24).

#### Assessment of commercial oil and gas reserves

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

#### 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 proven and probable oil and gas reserve quantities and commodity prices. The discount rate applied is a pre-tax rate which reflects the specific risks of the country in which the asset is located.

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

A review was performed for any indication that the value of the Group's oil and gas assets may be impaired at the balance sheet date of 31 December 2019 in accordance with the stated policy and no impairment triggers were noted. COVID-19 has been determined as a non-adjusting post-balance sheet event (see note 33).

#### Deferred taxation

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 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 its subsidiaries is £ sterling. See further detail in note 3 regarding the change in functional and presentational currency from US\$ to £ sterling with effect from 1 January 2019.

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. Proved and probable reserves estimates obtained from an independent reserves specialist have been used as the basis for 2019 calculations.

### Impairment

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

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

### Acquisitions, Asset Purchases and Disposals

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

Transactions involving the purchase of an individual field interest, or a group of field interests, that do not constitute a business, are treated as asset purchases. Accordingly,

no goodwill and no deferred tax gross up arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis. Proceeds from the entire disposal of a development and production asset, or any part thereof, are taken to the income statement together with the requisite proportional net book value of the asset, or part thereof, being sold.

### Decommissioning

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

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

### Underlift/Overlift

Lifting arrangements for oil and gas produced in certain fields are such that each participant may not receive its share of the overall production in each period. The difference between cumulative entitlement and cumulative production less stock is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within debtors ('underlift') or creditors ('overlift'). 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, and right-of-use assets over the period of lease.

## **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 derecognised or impaired, as well as through the amortisation process.

### Cash and cash equivalents

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

### Financial liabilities

Financial liabilities 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.

### Derivative financial instruments

The Group uses derivative financial instruments, such as forward commodity contracts, to hedge its commodity price risks. The Group has elected not to apply hedge accounting to these derivatives. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently

remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income and presented within operating profit.

Further details of the fair values of derivative financial instruments and how they are measured are provided in Note 20.

### 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 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. The value of the provision is determined by the amounts and nature of operating costs incurred over a contractual period.

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

## Equity-settled transactions

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

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

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

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

## **Income Taxes**

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which the deductible

temporary differences can be utilised. Deferred tax assets and liabilities are presented net only if there is a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

### **Earnings Per Share**

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

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

The 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 2019:

- IFRS 16 - Leases

IFRS 16 Leases, issued in January 2016, set out the principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. It replaced 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 previous accounting for operating leases, it impacts the classification and timing of expenses and consequently the classification between cash flow from operating activities and cash flow from financing activities.

IFRS 16 introduced 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 recognise separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There were recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the previous accounting under IAS 17 i.e. lessors continue to classify leases as finance or operating leases.

There are no other new or amended standards or interpretations effective for the first time for periods beginning on or after 1 January 2019 that had a significant impact on the financial statements.

### **Leases**

#### *Impact of IFRS 16 on Serica and accounting policy applicable from 1 January 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 considered to be material. In applying IFRS 16 for the first time the Group has applied the short-term lease practical expedient by not recognising lease liabilities in respect to lease arrangements with a remaining lease term of less than 12 months as at 1 January 2019. The Group adopted the modified retrospective approach to adoption on 1 January 2019, measuring right-of use assets at an amount based on their respective lease liability on adoption, with the cumulative effect of adopting the standard recognised at the date of initial application without restatement of comparative information.

As a lessee, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease, or, if that rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is subsequently recorded at amortised cost, using the effective interest rate method. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The Group does not currently act as a lessor.

#### *Accounting policy before 1 January 2019*

Under IAS 17, the determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

#### As a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement. A leased asset is depreciated over the shorter of the useful life of the asset or, if applicable, the lease term.

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

#### **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. In reviewing the below standards, the Group does not believe that there will be a material impact on the financial statements.

<b><i>Standard</i></b>	<b><i>Effective year commencing on or after</i></b>
IFRS 3 – Definition of a Business (amendments to IFRS 3)	1 January 2020
IAS1, IAS8 -Definition of Material (amendments to IAS1 and IAS 8)	1 January 2020
Framework in IFRS Standards	1 January 2020
IFRS 17 – Insurance Contracts	1 January 2020

### **3. Change in functional and presentational currency**

An entity's functional currency is the currency of the primary economic environment in which the entity operates and in which all transactions should be recorded. In light of the recent developments within the Company and 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 pounds sterling ("£"). The directors further concluded that the currency in which the Company and Group's financial results are reported, the presentational currency, should also be changed to £.

The BKR acquisitions have brought a significant increase in scale to the business with a majority of revenues now earned from gas sales which realise revenue in £, and most of the operator expenditure running the BKR assets is also denominated in £. The date of change in functional currency from US\$ to £ is 30 November 2018. However, given that the impact between a change on 30 November 2018 compared to 1 January 2019 is considered to be immaterial the change has been made effective on 1 January 2019. Consequently, the Group 2019 Interim Financial Statements were presented in £ and future Group and Company financial statements, starting with these for 2019, will also be presented in £. The change in presentational currency from US\$ to £ represents a voluntary change in accounting policy and is applied retrospectively with 2018 comparatives restated.

The presentation currency for the Company and Group has been changed to £ from 1 January 2019, with retrospective effect on comparative figures. Assets and liabilities have been translated into £ at closing rates of exchange on the relevant balance sheet date, whilst income and expenditure items were translated at rates of exchange prevailing at the relevant time of the transaction. Share capital and other reserves have been translated at the closing rates of exchange on the relevant balance sheet date. Equity per 1 January 2018 has been translated to £ using the £/US\$ closing rate applicable for the same date. As a result, a translation effect occurs for each component of equity. The translation effect related to share capital, other reserve and accumulated deficit is shown as a separate item in the statement of change in equity for 2018.

The exchange rates of the US dollar to pounds sterling over the periods restated in this report are as follows: 31 December 2017- closing rate 1.349, year ended 31 December 2018 - closing rate 1.2734, average rate 1.335.

#### 4. 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 2019 and 2018. Costs associated with the UK corporate centre are included in the UK reportable segment.

Year ended 31 December 2019

	UK £000	Ireland £000	Africa £000	Total £000
<b>Revenue</b>	<b>250,533</b>	<b>-</b>	<b>-</b>	<b>250,533</b>
<i>Continuing operations</i>				
Depletion	(52,631)	-	-	(52,631)
Other expenses	(109,576)	-	-	(109,576)
Pre-licence costs	(566)	-	-	(566)
E&E asset write-offs	(62)	(18)	-	(80)
Operating and segment profit/(loss)	87,698	(18)	-	87,680
Change in BKR financial liability	21,771	-	-	21,771
Finance revenue	571	-	-	571
Finance costs	(1,252)	-	-	(1,252)
Profit/(loss) before taxation	108,788	(18)	-	108,770
Taxation charge for the year	(44,750)	-	-	(44,750)
<b>Profit/(loss) after taxation</b>	<b>64,038</b>	<b>(18)</b>	<b>-</b>	<b>64,020</b>
	UK £000	Ireland £000	Africa £000	Total £000
Other segment information:				
Property, plant & equipment	325,404	-	-	325,404
Exploration and evaluation assets	304	-	3,348	3,652
Other assets	149,282	-	-	149,282
Unallocated assets				-
<b>Total assets</b>	<b>474,990</b>	<b>-</b>	<b>3,348</b>	<b>478,338</b>
Segment liabilities	(280,272)	(52)	(4)	(280,328)
<b>Total liabilities</b>	<b>(280,272)</b>	<b>(52)</b>	<b>(4)</b>	<b>(280,328)</b>
Capital expenditure 2019:				
Property, plant & equipment	5,074	-	-	5,074
Exploration and evaluation assets	291	18	240	549



Year ended 31 December 2018

	UK £000 *restated	Ireland £000 *restated	Africa £000 *restated	Total £000 *restated
<b>Revenue</b>	<b>35,708</b>	-	-	<b>35,708</b>
<i>Continuing operations</i>				
Depletion	(6,153)	-	-	(6,153)
Other expenses	(14,984)	-	-	(14,984)
Pre-licence costs	(217)	-	-	(217)
E&E asset impairment/write-offs	9,866	(7,416)	-	2,450
BKR transition costs	(8,814)	-	-	(8,814)
Operating and segment profit/loss	15,406	(7,416)	-	7,990
Bargain purchase gain on BKR acquisition	33,673	-	-	33,673
BKR transaction costs	(2,102)	-	-	(2,102)
Finance revenue	201	-	-	201
Finance costs	(282)	-	-	(282)
Profit before taxation	46,896	(7,416)	-	39,480
Taxation credit for the year	12,005	-	-	12,005
<b>Profit after taxation</b>	<b>58,901</b>	<b>(7,416)</b>	-	<b>51,485</b>
	UK £000	Ireland £000	Africa £000	Total £000
Other segment information:				
Property, plant & equipment	373,721	-	-	373,721
Exploration and evaluation assets	74	-	3,109	3,183
Other assets	85,765	5	-	85,770
Unallocated assets				14,731
<b>Total assets</b>	<b>459,560</b>	<b>5</b>	<b>3,109</b>	<b>477,405</b>
Segment liabilities	(345,362)	(128)	(110)	(345,600)
<b>Total liabilities</b>	<b>(345,362)</b>	<b>(128)</b>	<b>(110)</b>	<b>(345,600)</b>
Capital expenditure 2018:				
Property, plant & equipment	3,964	-	-	3,964
Exploration and evaluation assets	753	409	189	1,351

Unallocated assets comprise cash on deposit. In 2019 all cash on deposit is allocated to the UK operating segment.

Information on major customers is provided in note 5.

## 5. Sales Revenue

	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
Gas sales	152,586	28,137
Oil sales	75,237	4,877
NGL sales	22,710	2,694
	<hr/>	
	250,533	35,708
	<hr/>	

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

Gas sales revenue in 2018 and 2019 arose from one key customer, all oil sales revenue in 2018 and 2019 was from one key customer, and NGL sales in 2019 were made to four (2018: four) customers.

## 6. Cost of Sales

	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
Operating costs	105,148	13,146
Depletion (see note 16)	52,631	6,153
Movement in liquids overlift/underlift	6,969	(3,609)
	<hr/>	
	164,748	15,690
	<hr/>	

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

## 7. Group Operating Profit

	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
This is stated after crediting/(charging):		
Realised hedging gains	3,876	273
Unrealised hedging gains/(losses)	6,742	(1,827)
	<hr/>	
Other income/(expense)	10,618	(1,554)
	<hr/>	

### Operating leases

Operating lease rentals on land and buildings expensed in 2018 were £208,000\*.

### Depreciation, depletion and amortisation expense

Depreciation of other property, plant and equipment totalled £190,000 in 2019 (2018: £nil) and was allocated within general and administrative expenses.

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

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

## 8. Auditor's Remuneration

	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
Audit of the Group accounts	325	170
Audit of the Company's accounts	30	30
Audit of accounts of Company's subsidiaries	12	11
Total audit fees	<u>367</u>	<u>211</u>
	<b>£000</b>	£000
Other fees to auditor:		
Corporate transaction services	-	267
Other assurance fees	-	32
	<u>-</u>	<u>299</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

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

<b>a) Staff Costs</b>	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
Staff costs		
Wages and salaries	16,749	4,765
Social security costs	2,075	525
Other pension costs	1,960	140
Share-based long-term incentives	1,094	367
	<u>21,878</u>	<u>5,797</u>

The average number of persons employed by the Group during the year was 145 (2018: 22), 9 in management functions (2018: 7), 126 in technical functions (2018: 13) and 10 (2018:2) finance and administrative functions.

The average number of persons employed by the Company during the year was 10 (2018: 7), with 7 in management functions (2018: 6), nil in technical functions (2018: nil) and 3 (2018:1) in finance and administrative functions.

Staff costs for key management personnel:

Short-term employee benefits	1,255	1,095
Post-employment benefits	40	27
Share-based payments	242	175
	<u>1,537</u>	<u>1,297</u>

### b) Directors' Emoluments

The emoluments of the individual Directors were as follows. All amounts are paid in £ sterling.

	2019	2019	2019	2019	<b>2019</b>	2018
	Salary and	Bonus	Pension	Benefits	<b>Total</b>	Total
	fees			in kind		
	£000	£000	£000	£000	<b>£000</b>	£000
						*restated
A Craven Walker	400	-	-	19	419	489
M Flegg (1)	400	124	40	-	564	432
N Pike	50	-	-	-	50	50
I Vann	50	-	-	-	50	50
T Garlick (2)	50	-	-	-	50	3
M Webb (3)	50	-	-	-	50	3
	<u>1,000</u>	<u>124</u>	<u>40</u>	<u>19</u>	<u>1,183</u>	<u>1,027</u>

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.

	<b>2019</b>	2018
Number of Directors securing benefits under defined contribution schemes during the year	1	1
Number of Directors who exercised share options	-	-

Aggregate gains made by Directors on the exercise of options

<b>£000</b>	£000
-	-

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

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 32.

## 10. Finance Revenue

	<b>2019</b>	2018
	<b>£000</b>	£000 *restated
Bank interest receivable	571	201
Total finance revenue	<u>571</u>	<u>201</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

## 11. Finance Costs

	<b>2019</b>	2018
	<b>£000</b>	£000 *restated
Interest payable on BKR Facility	643	204
Interest payable on Erskine acquisition consideration	-	41
Other interest payable	96	5
Unwinding of discount on decommissioning provisions (note 24)	513	32
Total finance costs	<u>1,252</u>	<u>282</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

## 12. Taxation

	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
a) Tax charged/(credited) in the income statement		
Charge for the year	-	-
Total current income tax charge	<u>-</u>	<u>-</u>
Deferred tax		
Origination and reversal of temporary differences in the current year	44,750	-
Adjustment in respect of prior years	-	(12,005)
Total deferred tax charge/(credit)	<u>44,750</u>	<u>(12,005)</u>
Tax charge/(credit) in the income statement	<u>44,750</u>	<u>(12,005)</u>

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

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:

	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
Accounting profit before taxation	<u>108,770</u>	<u>39,480</u>
Statutory rate of corporation tax in the UK of 40% (2018: 40%)	43,508	15,792
Expenses not deductible for tax purposes	218	1,010
Unrecognised tax losses	1,033	377
Exploration write-offs	29	1,854
Bargain gain on BKR acquisitions	-	(13,470)
Utilisation of tax losses not previously recognised	-	(6,350)
Different foreign tax rates	11	1,123
Other	(49)	(336)
Recognition of losses not previously recognised	-	(12,005)
Tax charge/(credit) reported in the income statement	<u>44,750</u>	<u>(12,005)</u>

c) Recognised and unrecognised tax losses

The Group's deferred tax assets at 31 December 2019 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 2019 with respect to ring fence losses and allowances.

The Group has UK ring fence tax losses of £40.2 million available as at 31 December 2019 (2018: £109.4 million) which form part of total UK tax losses of approximately £65.4 million (2018: £133.7 million) that are available indefinitely for offset against future trading profits of the companies in which the losses arose. Of this amount £40.2 million (2018: £51.8 million) has been set off against taxable temporary differences. The benefit of approximately £25.2 million (2018: £24.3 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:

	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
Deferred tax liability:		
Temporary differences on capital expenditure	(130,162)	(149,828)
Deferred tax liability	<u>(130,162)</u>	<u>(149,828)</u>
Deferred tax asset:		
Tax losses carried forward	16,395	43,878
Deductibles under the Net Cash Flow Sharing Deed	28,900	65,810
Decommissioning liability	9,036	9,059
Deferred tax asset	<u>54,331</u>	<u>118,747</u>
Net deferred tax liability	<u>(75,831)</u>	<u>(31,081)</u>
Reconciliation of net deferred tax (liabilities)/assets		
	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
At 1 January	(31,081)	12,016
*Translation effect	-	777
Tax (charge)/ income during the year recognised in profit	(44,750)	12,005
Deferred taxes acquired (see note 27)	-	(55,879)
At 31 December	<u>(75,831)</u>	<u>(31,081)</u>

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

	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
Deferred tax in the income statement:		
Temporary differences on capital expenditure	(19,666)	3,903
Temporary difference on future recoverable costs	-	-
Tax losses carried forward	27,483	(15,908)
Net Cash Flow Sharing Deed	36,910	-
Other temporary differences	23	-
	<hr/>	<hr/>
Deferred income tax charge/(credit)	<u>44,750</u>	<u>(12,005)</u>

e) Changes to UK corporation tax legislation

Finance Act 2016 enacted a change in the mainstream corporation tax rate to 17% with effect from 1 April 2020. In the Budget statement on 11 March 2020 it was announced that the corporation tax rate will remain at 19% from 1 April 2020. The headline rate of tax for UK ring-fenced trading profits remains at 40%.

f) Unrecognised deferred tax liability

In 2019 and 2018 there are no material temporary differences associated with subsidiaries for which deferred tax liabilities have not been recognised.

g) Company

The Company has £25.2 million (2018: £23.9 million \*) of UK corporation tax losses which are not recognised as deferred tax assets.

\*restated from US\$ to £ following change of functional and presentational currency – see note 3



### 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 granted under share-based payment plans (see note 29) into ordinary shares.

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

	<b>2019</b> <b>£000</b>	2018 £000 *restated
Net profit from continuing operations	<u>64,020</u>	<u>51,485</u>
Net profit attributable to equity holders of the parent	<u>64,020</u>	<u>51,485</u>
	<b>2019</b> <b>'000</b>	2018 '000
Basic weighted average number of shares	<u>265,768</u>	<u>264,164</u>
Dilutive potential of ordinary shares granted under share-based payment plans	10,362	11,087
Diluted weighted average number of shares	<u>276,130</u>	<u>275,251</u>
	<b>2019</b> <b>£</b>	2018 £ *restated
Basic EPS on profit for the year (£)	0.24	0.20
Diluted EPS on profit for the year (£)	0.23	0.19

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

### 14. Dividends proposed

#### Proposed dividends on ordinary shares

A final cash dividend for 2019 of 3 pence per share is proposed (2018: nil) which would generate a payment of £8.0 million.

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December 2019.

## 15. Exploration and Evaluation Assets

<b>Group</b>	<b>Total £000</b> *restated
Cost:	
1 January 2018	48,905
*Translation effect	2,971
Additions	1,351
Write-offs	(7,416)
Transfers to property, plant and equipment (note 16)	(42,628)
31 December 2018	<u>3,183</u>
Additions	549
Write-offs	(80)
31 December 2019	<u>3,652</u>
Provision for impairment:	
1 January 2018	(9,313)
*Translation effect	(553)
Impairment reversal for the year	9,866
31 December 2018	<u>-</u>
Impairment reversal for the year	-
31 December 2019	<u>-</u>
Net book amount:	
31 December 2019	<u>3,652</u>
31 December 2018	<u>3,183</u>
1 January 2018	<u>39,592</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

The 2019 asset write-off figure comprised a £0.1 million charge following the relinquishment of UK Licence P1620 (containing the Rowallan prospect) and final minor charges against costs incurred on the Group's Irish licences.

The impairment reversal net of write-off charges against E&E assets in 2018 was a credit of £2.5 million. This comprised an impairment reversal of £9.9 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 (£2.7 million) and Rockall 1/09 and 4/13 Licences (£4.7 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 £42.6 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 was derived from the Group's estimate of discount rates that might be applied by active market participants and was adjusted where applicable to take into account any specific risks relating to the region where the asset is located.

In determining FVLCS it was necessary to make a series of assumptions to estimate future cash flows including volumes, price assumption and cost estimates. The calculation was most sensitive to the following assumptions; discount rates, oil and gas prices, reserve estimates and project risk. There were no reasonably possible changes in any of the above key assumptions that would have caused 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. Effective 31 December 2018, Columbus resources were re-classified as reserves and the book costs previously recorded as Exploration and Evaluation assets were reclassified as Oil and Gas assets within Property, Plant and Equipment.

## **Company**

The Company has no E&E assets.

## 16. Property, Plant and Equipment

<b>Group</b>	<b>Oil and gas properties</b>	<b>Equipment, fixtures and fittings</b>	<b>Right-of- use assets</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	*restated	*restated		*restated
Cost:				
1 January 2018	8,869	-	-	8,869
*Translation effect	1,442	-	-	1,442
Additions	3,752	212	-	3,964
Acquisitions (note 27)	326,342	-	-	326,342
Transfers (note 15)	42,628	-	-	42,628
31 December 2018	383,033	212	-	383,245
Additions	4,558	-	516	5,074
Revisions (note 24)	(570)	-	-	(570)
31 December 2019	387,021	212	516	387,749
Depreciation and depletion:				
1 January 2018	3,206	-	-	3,206
*Translation effect	165	-	-	165
Charge for the year (note 6)	6,153	-	-	6,153
31 December 2018	9,524	-	-	9,524
Charge for the year (note 6,7)	52,631	61	129	52,821
31 December 2019	62,155	61	129	62,345
Net book amount:				
31 December 2019	324,866	151	387	325,404
31 December 2018	373,509	212	-	373,721
1 January 2018	5,663	-	-	5,663

### 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 27) at a value of £326.3 million allocated to property, plant and equipment.

### Columbus

Following the approval of the FDP for Columbus and decision for the project to proceed the associated net book amount of £42.6 million was transferred from E&E assets to property, plant and equipment in 2018.

## Other

Depletion charges on oil and gas properties are classified within 'cost of sales'. Depreciation on other elements of property, plant and equipment is provided on a straight-line basis, and taken through general and administration expenses.

## Company

The Company has right-of-use assets with a net book amount of £0.4 million as at 31 December 2019.

## 17. Investments

<b>Company</b> – Investment in subsidiaries	<b>Total £000</b> *restated
Cost:	
As at 1 January 2018	99,358
*Translation effect	5,898
Movement in investment	-
As at 1 January 2019	<u>105,256</u>
Movement in investment	-
As at 31 December 2019	<u>105,256</u>
Provision for impairment:	
As at 1 January 2018	(98,358)
*Translation effect	(5,838)
Impairment reversal for the year	104,196
As at 1 January 2019	<u>-</u>
Impairment reversal for the year	-
As at 31 December 2019	<u>-</u>
Net book amount:	
31 December 2019	<u>105,256</u>
31 December 2018	<u>105,256</u>
1 January 2018	<u>1,000</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

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 £88,088,000 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 noted below generated a transfer of £88,088,000 to the merger reserve of those amounts initially eliminated in prior periods.

Management 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 £104,196,000 against the carrying value of investments in subsidiaries, and the reduction of £25,347,000 in provision for impairment against amounts owed by Group undertakings (see note 19) was made following an increase in value attributed to certain of the oil and gas assets held by the Company's subsidiary undertakings. This was largely 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 2018.

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	<b>% voting rights and shares held 2019</b>	<b>% voting rights and shares held 2018</b>
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 Fom Draa BV (i, iii & iv)	Ordinary	Dormant	-	-
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	-	-

- (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.

## 18. Inventories

	Group		Company	
	2019 £000	2018 £000 *restated	2019 £000	2018 £000 *restated
Materials and spare parts	4,671	4,284	-	-
	<u>4,671</u>	<u>4,284</u>	<u>-</u>	<u>-</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

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. Inventories are recorded net of an obsolescence provision of £1.3 million (2018: 1.3 million) which was recognised as part of the BKR acquisition accounting (note 27).

## 19. Trade and Other receivables

	Group		Company	
	2019 £000	2018 £000 *restated	2019 £000	2018 £000 *restated
Due within one year:				
Amounts owed by Group undertakings	-	-	93,064	84,868
Trade receivables	20,859	30,952	-	-
Amounts recoverable from JV partners	10,870	5,894	-	-
Other BKR receivables	907	7,004	-	-
Other receivables	284	35	-	15
Prepayments and accrued income	983	320	-	264
VAT recoverable	2,003	2,024	266	1,087
Liquids underlift	-	6,747	-	-
	<u>35,906</u>	<u>52,976</u>	<u>93,330</u>	<u>86,234</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

Trade receivables at 31 December 2019 arose from five (2018: five) 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 £13,231,000 (2018: £13,231,000) – see note 17.

## 20. Financial assets

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>£000</b>	£000	<b>£000</b>	£000
		*restated		*restated
Financial assets - current				
Derivative financial instruments	6,880	138	-	-
	<u>6,880</u>	<u>138</u>	<u>-</u>	<u>-</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

### *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. Other derivative financial instruments are valued by counterparties, with the valuations reviewed internally and corroborated with readily available market data (level 2).

Details of the Group's derivative financial instruments held as at 31 December 2019 and entered into during 2020 to date are provided in note 25.

## 21. Cash and Term Deposits

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>£000</b>	£000	<b>£000</b>	£000
		*restated		*restated
Cash at bank and in hand	42,584	28,372	5,281	6,372
Short-term deposits	59,241	13,731	6,067	13,338
<b>Cash and cash equivalents</b>	<u>101,825</u>	<u>42,103</u>	<u>11,348</u>	<u>19,710</u>
<b>Term deposits</b>	-	1,000	-	1,000
	<u>101,825</u>	<u>43,103</u>	<u>11,348</u>	<u>20,710</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

As at 31 December 2019, the cash balance of £101.8 million contains an amount of £12.1 million held in a restricted account as security against letters of credit issued in respect of certain decommissioning liabilities.



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/Moody's credit rating	<b>Group</b> <b>2019</b> <b>£000</b>	2018 £000	<b>Company</b> <b>2019</b> <b>£000</b>	2018 £000
			*restated		*restated
Barclays Bank plc	A-1	36,358	19,567	5,229	5,166
Lloyds Bank plc	A-1	53,120	23,508	6,119	15,544
Investec Bank plc	P-1	12,314	-	-	-

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

For the purposes of the consolidated and Company cash flow statement, cash and cash equivalents exclude term deposits of £nil from the above amounts at 31 December 2019 (2018: £1,000,000).

## 22. Trade and Other Payables

	<b>Group</b> <b>2019</b> <b>£000</b>	2018 £000	<b>Company</b> <b>2019</b> <b>£000</b>	2018 £000
		*restated		*restated
Current:				
Trade payables	5,807	4,443	94	2,595
Other payables	1,914	12,206	629	624
Accrued expenses	16,657	18,580	1,015	-
Liquids overlift	222	-	-	-
	<b>24,600</b>	<b>35,229</b>	<b>1,738</b>	<b>3,219</b>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

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.

Lease liabilities in respect of right of use assets are included within other payables.

## 23. Financial liabilities

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>£000</b>	£000	<b>£000</b>	£000
		*restated		*restated
BKR contingent consideration (note 27)	148,054	227,386	-	-
BKR deferred consideration (note 27)	7,405	11,513	-	-
BKR prepayment facility	-	15,896	-	-
	<b>155,459</b>	<b>254,795</b>	<b>-</b>	<b>-</b>
Split:				
Current	45,351	90,307	-	-
Non-current	110,108	164,488	-	-
	<b>155,459</b>	<b>254,795</b>	<b>-</b>	<b>-</b>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

### 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 £12.8 million with contingent payments of £16 million due in relation to the outcome of future work on the Rhum R3 well and up to a total £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 £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 pays 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 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 contingent consideration**

The fair value of the contingent consideration is estimated as at applicable reporting dates 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 11% (2018: 12%) and assumed repayment across the remaining 2020-2021 period (2018: 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.

In calculating the fair value of contingent consideration on the BKR acquisitions payable as at 31 December 2019, assumptions underlying the calculation were updated from 2018. These included updated commodity prices, production profiles, future opex, capex and decommissioning cost estimates, discount rates, proved and probable reserves estimates and risk assessments.

A sensitivity analysis to the gas prices used shows a decrease of 10% in the price used would result in a decrease in the fair value of the contingent consideration by £11.5 million, and an increase of 10% would result in an increase in the fair value of the contingent consideration by £11.6 million.

A sensitivity analysis to the discount rate used shows a decrease in the discount rate used from 11% to 9% would result in an increase in the fair value of the contingent consideration by £9.9 million, and an increase from 11% to 13% would result in a decrease in the fair value of the contingent consideration by £8.4 million.

## **2019 payments and income statement gain of £21.8 million arising on revaluation of BKR consideration**

Short and long-term financial liabilities representing estimated BKR consideration as at 31 December 2018 totalled £238.9 million. During 2019, £61.7 million of BKR contingent and deferred consideration was paid comprising £4.1 million of deferred consideration (paid to Total E&P) and £57.6 million of Net Cash Flow Sharing Deed payments (paid to BP, Total E&P and BHP).

As noted above, the fair value of this financial liability was re-assessed for the 2019 financial period end, with the final estimate of short and long-term liabilities as at 31 December 2019 amounting to £155.5 million. The overall liability reduction of £83.5 million in 2019 comprised cash payments of £61.7 million and a non-cash revision of £21.8 million recorded as a gain in the Income Statement.

The most significant factors behind the downward revision released to the Income Statement are lower realised gas pricing on amounts paid in respect of 2019 and lower

short-term gas prices now used in the forecast of 2020 Net Cash Flow payments and other elements of contingent consideration.

### Reconciliation of movement in BKR consideration

	Total £000
At 31 December 2018 *restated	238,899
Payments made in year	(61,669)
Revisions during the year	(43,824)
Unwinding of discount	22,053
Change in fair value liability	<u>(21,771)</u>
At 31 December 2019	<u>155,459</u>
Classified as:	
Current	45,351
Non-current	110,108
	<u>155,459</u>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

### BKR prepayment facility

Current liabilities of £15.9 million as at 31 December 2018 represented amounts drawn under the prepayment facility made between Serica and BP Gas Marketing Limited and dated 21 November 2017. All amounts due under the facility were repaid during 2019.

Under this facility, BP Gas 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 were purchased by Serica in conjunction with signing the acquisition agreement. The prepayment facility carried interest at one-month LIBOR plus 4.5% per annum compounded monthly and added to the outstanding amount and had a maximum duration of three years from initial drawings on 21 November 2017. Repayments commenced six months after completion and were 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.

## 24. Provisions

	Erskine consideration £000 *restated	Decommissioning provision £000 *restated	Total £000 *restated
At 1 January 2018	1,994	-	1,994
*Translation effect	118	-	118
Acquisitions (note 27)	-	22,615	22,615
Revisions during the year	(264)	-	(264)
Unwinding of discount (note 11)	-	32	32
At 31 December 2018	1,848	22,647	24,495
Revisions during the year	-	(570)	(570)
Unwinding of discount (note 11)	-	513	513
At 31 December 2019	1,848	22,590	24,438
Classified as:			
Current	1,848	-	1,848
Non-current	-	22,590	22,590
	1,848	22,590	24,438

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

### 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% (2018: 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 2018 or 2019 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 £174.0 million (£31.32 million net to Serica) with this figure adjusted for inflation.

### 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 estimated provision for these amounts is £1.8 million which has been capitalised as an oil and gas asset cost (see note 16). Uncertainties currently exist as to the quantification of any final payment but it is expected to be settled in 2020.

### Company

The Company has no provisions.

## 25. Financial Instruments

The Group's financial instruments comprise cash and cash equivalents, bank loans and borrowings, accounts payable and accounts receivable, derivative financial instruments, deferred consideration and contingent consideration. 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, during 2018 and 2019, the BKR facility; given the level of expenditure plans over 2020/21 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-£ cash holdings and other financial instruments relating to its operations. The £ 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 2019**

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed rate				
Short-term deposits	59,241	-	-	59,241
				<u>59,241</u>
Floating rate				
Cash	42,584	-	-	42,584
				<u>42,584</u>

#### **Year ended 31 December 2018**

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed rate				
Short-term deposits	*restated 13,731	*restated -	*restated -	*restated 13,731
Term deposits	1,000	-	-	1,000
				<u>14,731</u>

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Floating rate				
Cash	28,442	-	-	28,442
BKR facility	(15,896)	-	-	(15,896)
				<u>12,546</u>

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	<b>Effect on profit</b>	Effect on profit
	<b>before tax</b>	before tax
	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
+0.75%	524	127
-0.75%	(524)	(127)

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 2019**

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed rate				
Short-term deposits	6,067	-	-	<u>6,067</u>
				<u>6,067</u>

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Floating rate				
Cash	5,281	-	-	<u>5,281</u>

##### **Year ended 31 December 2018**

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed rate				
	*restated	*restated	*restated	*restated
Short-term deposits	13,338	-	-	13,338
Term deposits	1,000	-	-	<u>1,000</u>
				<u>14,338</u>

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Floating rate				
Cash	6,372	-	-	<u>6,372</u>

## 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 GBP£ reporting currency. Non-GBP denominated balances, subject to exchange rate fluctuations, at year-end were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>£000</b>	£000	<b>£000</b>	£000
		*restated		*restated
Cash and cash equivalents:				
US Dollar	30,395	8,383	7,783	5,996
Norwegian kroner	6	6	-	-
Euros	172	27	-	-
Accounts receivable:				
US Dollar	7,397	13,368	10	273
Trade and other payables:				
US Dollar	2,584	3,297	-	35

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.

	<b>Effect on profit</b>	Effect on profit
	<b>before tax</b>	before tax
	<b>2019</b>	2018
	<b>£000</b>	£000
		*restated
Increase/decrease in foreign exchange rate		
10% strengthening of £ against US\$	(3,521)	(1,845)
10% weakening of £ against US\$	3,521	1,845

\*restated from US\$ to £ following change of functional and presentational currency – see note 3



## Liquidity risk

The table below summarises the maturity profile of the Group and Company's financial liabilities at 31 December 2019 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**

<b>Year ended 31 December 2019</b>	<b>Within 1 year £000</b>	<b>1 to 2 years £000</b>	<b>2 to 5 years £000</b>	<b>&gt;5 years £000</b>	<b>Total £000</b>
Trade and other payables	24,600	-	-	-	24,600
BKR deferred consideration	7,405	-	-	-	7,405

<b>Year ended 31 December 2018</b>	<b>Within 1 year £000</b>	<b>1 to 2 years £000</b>	<b>2 to 5 years £000</b>	<b>&gt;5 years £000</b>	<b>Total £000</b>
	*restated	*restated	*restated	*restated	*restated
Trade and other payables	38,615	-	-	-	38,615
BKR deferred consideration	3,850	7,663	-	-	11,513
BKR facility	15,896	-	-	-	15,896

Amounts payable as BKR contingent consideration are explained in detail in note 23. The bulk of contingent consideration due under the BKR acquisition agreements is related to future successful field performance and either paid out as a proportion of cash inflows or dependent on successful performance, with liquidity risk impacted downwards accordingly.

### **Company**

<b>Year ended 31 December 2019</b>	<b>Within 1 year £000</b>	<b>1 to 2 years £000</b>	<b>2 to 5 years £000</b>	<b>Total £000</b>
Trade and other payables	1,738	-	-	1,738

<b>Year ended 31 December 2018</b>	<b>Within 1 Year £000</b>	<b>1 to 2 years £000</b>	<b>2 to 5 years £000</b>	<b>Total £000</b>
	*restated			*restated
Trade and other payables	3,219	-	-	3,219

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

## Commodity price risk

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 2019 Serica held gas price puts covering volumes of 160,000 therms per day for 1H 2020 at a floor price of 35 pence per therm with no upside price restrictions. Serica also held gas price swaps at fixed prices of; 46.55 pence per therm covering 160,000 therms per day for Q1 2020, 40.75 pence per therm covering 160,000

therms per day for Q2 2020, 37.6 pence per therm covering 80,000 therms per day for Q3 2020 and 45.41 pence per therm covering 80,000 therms per day for Q4 2020.

In January 2020, Serica obtained additional gas price swaps covering 120,000 therms per day for Q1 2021 at an average of 45.95 pence per therm. In March 2020, further swaps of 80,000 therms per day for November 2020 at 32.55 pence per therm, 100,000 therms per day for December 2020 at 35.55 pence per therm and 65,000 therms per day for Q1 2021 at 36.20 pence per therm were obtained.

#### Fair values of financial assets and liabilities

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

#### Capital management

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 2019, capital employed of the Group amounted to £198.0 million (comprised of £198.0 million of equity shareholders' funds and £nil of borrowings), compared to £147.7 million at 31 December 2018 (comprised of £131.8 million of equity shareholders' funds and £15.9 million of borrowings).

At 31 December 2019, capital employed of the Company amounted to £208.6 (comprised of £208.6 million of equity shareholders' funds and £nil of borrowings), compared to £209.0 million at 31 December 2018 (comprised of £209.0 million of equity shareholders' funds and £nil of borrowings).

## 26. 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 2019, the share capital of the Company comprised one "A" share of GB£50,000 and 267,230,216 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.

<b>Allotted, issued and fully paid:</b>		Share	Share	Total
<b>Group</b>	Number	capital £000 *restated	premium £000 *restated	Share capital £000 *restated
As at 1 January 2018	263,679,040	19,613	150,371	169,984
*Translation effect		1,168	8,934	10,102
Shares issued	1,078,780	81	127	208
As at 1 January 2019	264,757,820	20,862	159,432	180,294
Shares issued	2,472,397	200	891	1,091
As at 31 December 2019	267,230,217	21,062	160,323	181,385

<b>Allotted, issued and fully paid:</b>		Share	Share	Total
<b>Company</b>	Number	capital £000 *restated	premium £000 *restated	Share capital £000 *restated
As at 1 January 2018	263,679,040	19,613	124,224	143,837
*Translation effect		1,168	7,382	8,550
Shares issued	1,078,780	81	127	208
As at 1 January 2019	264,757,820	20,862	131,733	152,595
Shares issued	2,472,397	200	891	1,091
As at 31 December 2019	267,230,217	21,062	132,624	153,686

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

2,048,500 ordinary shares were issued across 2019 used to satisfy awards under the Company's share-based incentive schemes and 423,897 ordinary shares issued under the Share Incentive Plan. 201,506 ordinary shares have been issued in 2020 to date and as at 21 April 2020 the issued voting share capital of the Company was 267,431,722 ordinary shares and one "A" share.

## 27. 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 was an acquisition of interests in a joint operation under IFRS 11 and, as the activity constituted a business as defined in IFRS 3 Business Combinations, the acquisitions were accounted for as a business combination. The consolidated financial statements for 2018 included 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 provisionally recognised on acquisition £000 *restated	Final assessment and other revision £000	Fair value recognised on acquisition £000
<b>Assets</b>			
Property, plant and equipment (note 16)	326,342	-	326,342
VAT recoverable and other assets	397	-	397
Underlift	3,995	-	3,995
Inventory	5,212	(1,268)	3,944
	<u>335,946</u>	<u>(1,268)</u>	<u>334,678</u>
<b>Liabilities</b>			
Trade and other payables	(14,672)	3,379	(11,293)
Deferred tax liability (note 12d)	(45,109)	(10,770)	(55,879)
Provisions (note 24)	(22,615)	-	(22,615)
	<u>(82,396)</u>	<u>(7,391)</u>	<u>(89,787)</u>
<b>Total identifiable net assets at fair value</b>	<b><u>253,550</u></b>	<b><u>(8,659)</u></b>	<b><u>244,891</u></b>
<b>Bargain purchase gain arising on acquisitions</b>	<b><u>41,474</u></b>	<b><u>(7,801)</u></b>	<b><u>33,673</u></b>
Initial consideration received/receivable	26,823	858	27,681
Deferred consideration payable (note 23)	(11,513)	-	(11,513)
Contingent consideration payable (note 23)	(227,386)	-	(227,386)
<b>Purchase consideration</b>	<b><u>(212,076)</u></b>	<b><u>858</u></b>	<b><u>(211,218)</u></b>

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

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

## **Fair value of consideration**

The 2018 bargain purchase gain of £33.7 million represented the difference between fair valuations of the BKR assets acquired and consideration paid or potentially payable calculated in accordance with applicable accounting standards. In accordance with accounting standards, the fair value was provisionally determined at year end 2018. Adjustments to the provisional fair value assessments have been identified during the current period. The net impact of the adjustments to the acquisition date balance sheet is a reduction in the bargain purchase gain of £7.8 million. This comprises revisions to the estimations of the consideration payable and of the acquisition date fair value of inventory and trade and other payables that were identified within twelve months of the completion of the acquisitions and are therefore recognised in accordance with IFRS 3. This also comprises a £10.8 million adjustment to the estimation of the deferred tax liabilities arising at the acquisition date. This adjustment was identified more than twelve months after the completion of the acquisition and therefore, it is not accounted for as a revision of the provisional fair values under IFRS 3. As the item is though quantitatively material to the 2019 financial statements, it has been accounted for in accordance with the requirements of IAS 8. As a result, the revision is still reflected as a restatement of the acquisition date balance sheet with a resulting impact on the bargain purchase gain in the 2018 income statement.

The bargain purchase gain, representing the excess of fair value of the net assets acquired over the purchase consideration, arose 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 BKR asset acquisitions consisted of four separate transactions with the four different counterparties who reported historical financial information under differing financial reporting requirements. Management considered that it was 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.

## **Cash (outflow)/inflow from business combination in cash flow statement**

The cash outflow of £57.3 million arising in 2019 (2018: cash inflow of £22.2 million of initial consideration) for the BKR acquisition comprises payments of £57.6 million of contingent consideration paid, £4.1 million of deferred consideration paid partially offset by £4.4 million of initial consideration received.

## **BKR acquisitions and other transition related costs**

Significant transition costs of £8.8 million and transaction costs of £2.1 million 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.

## 28. Additional Cash Flow Information

### Analysis of Group net cash Year ended 31 December 2019

	<b>1 January 2019 £000</b>	<b>Cash flow £000</b>	<b>Non-cash movements £000</b>	<b>31 December 2019 £000</b>
Cash	28,371	14,424	(211)	42,584
Short-term deposits	13,732	45,936	(427)	59,241
	<u>42,103</u>	<u>60,360</u>	<u>(638)</u>	<u>101,825</u>

### Year ended 31 December 2018

	<b>1 January 2018 £000</b>	<b>Cash flow £000</b>	<b>Non-cash movements £000</b>	<b>31 December 2018 £000</b>
	*restated	*restated	*restated	*restated
Cash	6,226	22,043	103	28,372
Short-term deposits	14,735	(1,151)	147	13,731
	<u>20,961</u>	<u>20,892</u>	<u>250</u>	<u>42,103</u>

### Analysis of Company net cash Year ended 31 December 2019

	<b>1 January 2019 £000</b>	<b>Cash flow £000</b>	<b>Non-cash movements £000</b>	<b>31 December 2019 £000</b>
Cash	6,372	(1,142)	51	5,281
Short-term deposits	13,338	(7,369)	98	6,067
	<u>19,710</u>	<u>(8,511)</u>	<u>149</u>	<u>11,348</u>

### Year ended 31 December 2018

	<b>1 January 2018 £000</b>	<b>Cash flow £000</b>	<b>Non-cash movements £000</b>	<b>31 December 2018 £000</b>
	*restated	*restated	*restated	*restated
Cash	3,472	2,868	32	6,372
Short-term deposits	10,399	2,870	69	13,338
	<u>13,871</u>	<u>5,738</u>	<u>101</u>	<u>19,710</u>

**Changes in Group liabilities arising from financing activities**  
**Year ended 31 December 2019**

	<b>1 January 2019 £000</b>	<b>Cash flow £000</b>	<b>Non-cash movements £000</b>	<b>31 December 2019 £000</b>
BKR facility	15,896	(16,539)	643	-

Cash outflows in 2019 comprised £15,673,000 of borrowing repayments and £866,000 of finance costs paid.

**Year ended 31 December 2018**

	<b>1 January 2018 £000</b>	<b>Cash flow £000</b>	<b>Non-cash movements £000</b>	<b>31 December 2018 £000</b>
BKR facility	2,892	12,800	204	15,896

\*restated from US\$ to £ following change of functional and presentational currency – see note 3

## 29. 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".

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 2019, 4,578,050 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.

No options were granted in 2018 or 2019 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:

<b>Serica 2005 option plan</b>	<b>2019 Number</b>	<b>2019 WAEP £</b>	2018 Number	2018 WAEP £
Outstanding as at 1 January	6,465,550	0.25	8,196,330	0.25
Exercised during the year	(1,887,500)	0.48	(1,078,780)	0.24
Expired during the year	-	-	(652,000)	0.40
Outstanding as at 31 December	<u>4,578,050</u>	<u>0.11</u>	<u>6,465,550</u>	<u>0.25</u>
Exercisable as at 31 December	4,578,050	0.11	6,465,550	0.25

The weighted average remaining contractual life of options outstanding as at 31 December 2019 is 5.0 years (2018: 4.9 years).

For the Serica 2005 option plan, the exercise price for outstanding options at the 2019 year-end ranges from £0.07 to GB£0.31 (2018: £0.07 to £0.68).



As at 31 December 2019, the following director and employee share options were outstanding:

<b>Expiry Date</b>	<b>Amount</b>	<b>Exercise cost GB£</b>
April 2021	50,000	15,685
January 2022	428,050	91,496
January 2023	200,000	54,500
January 2024	300,000	39,000
June 2025	1,100,000	72,600
July 2025	1,000,000	120,000
July 2025	1,000,000	180,000
July 2025	500,000	120,000
<b>Total</b>	<b>4,578,050</b>	

*Long Term Incentive Plan*

The following awards granted to certain Directors and employees under the LTIP (deemed to be granted in November 2017 under IFRS 2) are outstanding as at 31 December 2019.

<b>Director/Employees</b>	<b>Total number of shares granted subject to Deferred Bonus Share Awards</b>
Antony Craven Walker	225,000
Mitch Flegg	225,000
Employees below Board level (in aggregate)	414,000
	<u>864,000</u>

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 and all awards have therefore now vested. They were not subject to performance conditions; however, they were conditional on completion of the BKR Acquisition, subject to the Board determining otherwise.

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

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 and are not exercisable as at 31 December 2019.

## LTIP awards in 2019

In Q1 2019, the Company granted nil-cost Performance Share Awards over 3,735,640 ordinary shares and nil-cost Retention Share Awards over 242,539 ordinary shares, a combined total of 3,978,179 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:

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

These awards are subject to vesting criteria based on absolute share price performance over a three-year period and are not exercisable as at 31 December 2019.

### *Share-based compensation*

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those 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.

£1,094,000 has been charged to the income statement for the year ended 31 December 2019 (2018: £367,000) and a similar amount credited to the share-based payments reserve, classified as 'Other reserve' in the Balance Sheet. A charge of £242,000 (2018: £175,000) of the total charge was in respect of key management personnel (defined in note 10).

## **30. Leases**

In March 2019 the Group entered into a three-year lease at its new registered office, 48 George Street, following the expiry of its previous London office lease at 52 George Street, which had been recognised as an operating lease.

Following the adoption of IFRS 16 – Leases on 1 January 2019, the Group recognised a right-of use asset and a lease liability at the lease commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease, or, if that rate cannot be readily determined, the Group uses its incremental borrowing rate.

The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group had no right-of use assets as at 31 December 2018. Initial right-of-use assets and lease liabilities of £516,000 were recognised by the Group during 2019 within property, plant and equipment and other liabilities respectively. A depreciation charge of £129,000 was expensed within administrative expenses. £178,000 of cash payments

made against the lease liability during 2019 are reflected in the 2019 Group cash flow statement as a cash outflow on property, plant and equipment.

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

### **31. Capital Commitments and Contingencies**

At 31 December 2019, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation assets and oil and gas properties amounted to £nil for the Group and £nil for the Company (2018: £nil and £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.

#### BKR commitments

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 £16 million due to BP upon a successful outcome from the Rhum R3 workover, US\$5 million due to Total E&P on 31 March 2020 and 30 November 2020 and amounts of up to £7.7 million due to BP in respect of each of 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 posted cash collateral of approximately £12.1 million under BKR decommissioning security arrangements in support to the issue of letters of credit required. This secured amount is within the Group's cash balances of £101.8 million as at 31 December 2019. The funds are freely transferable but alternative collateral would need to be put in place to replace the cash security.

#### Erskine commitments

As at 31 December 2018, the cash balance of £43.1 million contained an amount of £3.0 million that was 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. This security was no longer required during the course of 2019 and no Erskine guarantee now exists.

#### Other commitments

The Group has no significant exploration commitments apart from the well on North Eigg prospect to be drilled within three years of the November 2019 licence award. Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK.

#### *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.

### **32. 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.

### **33. Post Balance Sheet Events**

#### *Bruce Platform Caisson*

On 30 January 2020 Serica announced that during a Bruce platform inspection, the condition of an unused seawater return caisson on the platform was observed to have deteriorated. This caisson had been taken out of service in 2009. Production through the Bruce facility, comprising the Bruce Keith and Rhum fields, was halted while the problem was fully investigated.

A subsequent underwater inspection determined that the unused caisson had parted below the water line leaving both the upper and lower sections of the caisson intact. Engineering work to ensure that the caisson was properly secured was carried out and after a shut-in of approximately six weeks, production from the three fields was restarted.

The financial impact has been mitigated by the net cash flow sharing arrangements put in place with BP, Total E&P and BHP respectively in conjunction with the BKR acquisitions.

#### *COVID-19*

Since 31 December 2019 the building COVID-19 crisis has caused increasing restrictions of all forms of travel and many normal business and commercial activities both in the UK, Serica's main arena of operations, and globally. This has impacted markets generally with oil and gas commodity markets particularly disrupted. In addition, an international dispute between OPEC+ countries in early March 2020 triggered a price war. The resultant over-supply of oil and gas to global markets, coupled with the fall in demand due to the outbreak of Covid-19, has significantly reduced the price at which Serica has been selling its oil and gas production since early March though partially mitigated by the Company's gas price puts and swaps. The spread of the virus could also disrupt the Company's operations either directly or through its supply chain, product offtake routes or other dependencies. The impact to Serica is mitigated by the workings of the net cash flow sharing agreements put in place with BP, Total E&P and BHP respectively in conjunction with the BKR acquisitions.

In addition to its price hedging cover and net cash flow sharing arrangements, Serica entered this period with strong cash balances, no debt, limited fixed liabilities and relatively low operating costs per boe. In management's opinion this leaves the Company well placed to withstand the actual and potential impacts of the current crisis and continue to seek opportunities to further build its business.

Serica has put in place measures to protect its personnel including working from home for onshore staff and safe travel and social distancing procedures for offshore staff working on the Bruce platform.

COVID-19 and the impact of the OPEC+ dispute on commodity prices, have been determined as a non-adjusting balance sheet events. However the significant estimates and judgements that will be made in preparing future financial statements may also be impacted if the current macro-economic uncertainty continues and estimates of long-

term commodity prices decrease. In particular, we expect the following would be impacted: the estimated amounts of BKR contingent consideration payable, which include significant short-term elements, would reduce and the estimated recoverable amounts of property, plant and equipment would be lower and the headroom of recoverable amounts over respective carrying values would reduce. We do not believe, based on current forecasts, that impairments on oil and gas assets would arise.

## GLOSSARY

bbbl	barrel of 42 US gallons
bcf	billion standard cubic feet
boe	barrels of oil equivalent (barrels of oil, condensate and LPG plus the heating equivalent of gas converted into barrels at the appropriate rate)
BKR Assets	Bruce, Keith and Rhum fields
BPEOC	BP Exploration Operating Company
CPR	Competent Persons Report
ESG	Environmental, Social and Governance
FDP	Field Development Plan
FPS	Forties Pipeline System
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 revised June 2018 Petroleum Resources Management System (PRMS) version 1.01
Tcf	trillion standard cubic feet
UKCS	United Kingdom Continental Shelf