

# Serica Energy plc

("Serica" or the "Company")

## Results for the six months ended 30 June 2020

**London, 10 September 2020** - Serica Energy plc (AIM: SQZ) today announced its financial results for the six-months ended 30 June 2020. The results are included below and copies are available at [www.serica-energy.com](http://www.serica-energy.com) and [www.sedar.com](http://www.sedar.com).

### Resilient Performance with a strong balance sheet and an eye on growth

- Group profit before tax of £20.4 million (1H 2019: £51.9 million) and cash flow from operations of £19.3 million (1H 2019: £89.8 million).
- During the first half of 2020 Serica has faced challenges from COVID-19 disruption, steep falls in both oil and gas prices and a 45 day shut-in of its BKR production to secure a damaged caisson on the Bruce platform.
- The Company's efforts in reducing operating costs, building healthy cash reserves with no borrowings and maintaining a gas price hedging programme have assisted Serica in managing these combined challenges and have allowed it to continue to pursue its operational objectives.
- This has been supplemented by the flexible structure of the BKR net cash flow sharing arrangements whereby both current period payments and projected remaining liabilities have been reduced.
- Serica swiftly put contingency measures in place and has experienced no interruption in production due to the COVID-19 outbreak.
- The R3 workover is planned to commence shortly and the Columbus development is progressing with drilling planned for Q2 2021 and first gas in late 2021.
- Group 1H average production of 21,600 boe per day net to Serica compared to 30,000 boe per day for full year 2019 reflecting the impact of the Bruce caisson repairs and other maintenance work.
- Despite significantly reduced sales revenues arising from the combination of lower production volumes and very low commodity prices, Serica still covered its cash operating costs before taking in the benefit of its gas price hedging programme.
- This enabled the Company to retain its balance sheet strength with closing cash at 30 June 2020 of £101.1 million (31 Dec 2019: £101.8 million).
- In light of the strong financial position of the Company and its resilient performance, a dividend of 3 pence per share was paid in July.

## Financial Highlights

- Average realised sales price of US\$15.20 per boe (80% gas) (1H 2019: US\$34.0 per boe) before net hedging gains of £8.3 million (1H 2019: £3.2 million). Average operating cost of US\$15.12 per boe for 1H 2020 (1H 2019: US\$12.30 per boe) was impacted by the 45 day BKR shut-in.
- Gross loss of £19.8 million (1H 2019: profit of £52.4 million) and operating loss of £12.7 million (1H 2019: £52.5 million profit) included £18.7 million of non-cash depletion charges (1H 2019: £37.3 million).
- Profit before tax of £20.4 million (1H 2019: £51.9 million) after £33.0 million reduction in fair value of BKR liabilities (1H 2019: nil). Profit after tax of £12.4 million (1H 2019: £30.0 million) after non-cash deferred tax provision of £8.0 million (1H 2019 - £21.9 million).
- Cash flow from operations of £19.3 million (1H 2019: £89.8 million) left closing cash substantially unchanged at £101.1 million (31 December 2019: £101.8 million) after payment of £15.0 million of BKR liabilities (1H 2019: £41.5 million) and capex of £7.2 million (1H 2019: £1.7 million).

## Operational

- Significantly lower Group average production of 21,600 boe per day net to Serica (FY 2019: 30,000 boe per day) reflected the impact of the Bruce caisson shut-in on the BKR fields and maintenance work carried on Erskine.
- Underlying operating costs on BKR have been reduced by approx. 10% in 2020 although an increase in costs per barrel to US\$15.12 per boe from US\$12.30 reflected fixed cost elements spread over lower production volumes and additional expenditures on Bruce caisson repairs.
- Preparations for the Rhum R3 well intervention are in progress with operations expected to start shortly.
- Columbus development well rescheduled to Q2 2021 to match the deferred commissioning of the Arran to Shearwater pipeline with first gas now expected in late 2021.

## Outlook

- Commodity prices remain volatile but both oil and gas have shown strong rebounds from their respective historical lows and appear to be moving closer to supply and demand balancing after initial severe COVID-19 disruption. Nonetheless the Company will continue to build on its price hedging programme where it identifies value in doing so.
- We will continue to maximise production and reduce costs in order to generate increased value from our existing assets whilst simultaneously using our strong position to identify growth opportunities for the Company.
- In parallel with pursuing these objectives we will continue to increase our focus on ESG issues, in particular in efforts to reduce the carbon intensity of our production.
- Following the payment of a maiden dividend for 2019, the position will be reviewed in conjunction with the 2020 full year results. It is the intention that a regular dividend will be paid subject to maintaining a favourable financial position and an appropriate balance between growth, risk management and total shareholder return.

## **Commenting on the 1H 2020 results, Mitch Flegg, Serica's CEO stated:**

"I am pleased that we are able to report a mid-year profit before and after tax despite the challenging economic conditions encountered during the first half of 2020.

Serica benefits from an extremely low cost base and we have managed to further reduce our absolute costs in 2020. We have also profited from significant gas price hedges covering approximately 50% of H1 retained gas sales after adjustment for net cash flow sharing and we expect to continue to benefit from the strategy that has seen us increase and extend these hedges this year. As a result, we have not had to furlough or lay off any staff nor have we had to take advantage of any of the various government schemes that were made available to support industry.

The health and safety of employees remains Serica's top priority and the Company continues to monitor the potential impact of the COVID pandemic. I would like to thank all of our colleagues for their resilience and outstanding performance in this challenging period.

We are now seeing a recovery in commodity prices and with our strong cash balances, no debt, full-lifecycle operational capability and capacity to grow, Serica is well-positioned to play a leading role in the industry recovery."

A conference call for analysts will be held later today at 11.00 a.m. (UK time), Thursday 10 September. If you would like to participate, please email [serica@instinctif.com](mailto:serica@instinctif.com). A copy of the accompanying presentation can be found on our website: [www.serica-energy.com](http://www.serica-energy.com)

## **Regulatory**

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

The technical information contained in the announcement has been reviewed and approved by Fergus Jenkins, VP Technical at Serica Energy plc. Mr Jenkins (MEng in Petroleum Engineering from Heriot-Watt University, Edinburgh) is a Chartered Engineer with over 20 years of experience in oil & gas exploration, production and development and is a member of the Society of Petroleum Engineers (SPE).

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## **NOTES TO EDITORS**

Serica Energy is a British independent oil and gas exploration and production company with exploration, development and production assets in the UK and exploration interests offshore Namibia.

Serica is the operator of the producing Bruce, Keith and Rhum fields in the UK Northern North Sea, holding interests of 98%, 100% and 50% respectively. Serica also holds an 18% non-operated interest in the producing Erskine field in the UK Central North Sea and a 50% operated interest in the Columbus Development.

Further information on the Company can be found at [www.serica-energy.com](http://www.serica-energy.com).

The Company's shares are traded on the AIM market of the London Stock Exchange under the ticker SQZ and the Company is a designated foreign issuer on the TSX. To receive Company news releases via email, please subscribe via the Company website.

## **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.

## **INTERIM REPORT FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020**

The following Interim Report of the operations and financial results of Serica Energy plc ("Serica") and its subsidiaries (together the "Group") contains information up to and including 9 September 2020 and should be read in conjunction with the unaudited interim consolidated financial statements for the period ended 30 June 2020, which have been prepared by and are the responsibility of the Company's management.

References to the "Company" include Serica and its subsidiaries where relevant. Following the change in functional and presentational currency of the Group from US\$ to Pounds Sterling ("£") in 2019 all figures are reported in £ unless otherwise stated.

The results of Serica's operations detailed in the interim financial statements are presented in accordance with International Financial Reporting Standards ("IFRS").

The Company's shares are listed on AIM in London. Although the Company delisted from the TSX in March 2015, the Company is a "designated foreign issuer" as that term is defined under National Instrument 71-102 - *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*. The Company is subject to the regulatory requirements of the AIM market of the London Stock Exchange in the United Kingdom.

Serica is an oil and gas company with production, development and exploration activities based in the UK and exploration activities based in Namibia.

## CHIEF EXECUTIVE OFFICER'S REVIEW

Despite the severe economic backdrop and the impact on commodity pricing which has affected all companies in the first half of 2020, I am pleased to report that Serica Energy's strong balance sheet and robust hedging position combined with the structure of the transactions under which we acquired our interests in the BKR fields has resulted in the Company reporting a mid-year profit before tax of £20.4 million (1H 2019: £51.9 million).

The first half weakness in commodity prices and a 45 day suspension of BKR production early in the half due to an issue with an unused caisson on the Bruce platform resulted in a first half loss at the operating level of £12.7 million (1H 2019: £52.5 million profit). However, this has had little effect on the Company's operating capacity. Cash balances at mid-year remain virtually unchanged at £101 million with no impairment to the Company's balance sheet which remains strong. This financial strength enables us to maintain our forward investment programme broadly as planned and we are seeing second half evidence of improving commodity prices.

The first half of 2020 has been challenging on a number of fronts.

- Firstly, COVID-19 has created a working environment that few could have foreseen at the start of the year. I'm really pleased to say that due to swift and decisive action that we took in the early days of the pandemic, we've had no outbreaks of the virus offshore and no interruption to production. All of our staff (both onshore and offshore) have responded magnificently, their performance has been outstanding and we continue to work with government and industry bodies to keep their working environment safe. We have not had to furlough or lay off any staff nor have we had to take advantage of any of the various government schemes that were made available to support industry.
- Secondly, we have had to deal with the severe and rapid fall in commodity prices caused by the global oversupply of oil and gas coupled with the simultaneous reduction in demand. Serica had made significant cost reductions during 2019 and this has enabled us to remain operating cashflow positive in 2020 even at the depressed commodity prices encountered.
- Finally, in January, an unused seawater return caisson on the Bruce platform was observed to have deteriorated, which led to a shutdown of Bruce, Keith and Rhum production for 45 days. Our teams designed and executed a programme of repairs to secure the caisson safely, with no environmental impact. This work had no negative impact on future production rates or on the ultimate hydrocarbon recovery from the BKR fields and was completed ahead of schedule.

We are fortunate that Serica is extremely well-placed to deal with these issues. In 2019 our prime focus was on reducing our cost base and we have managed to further reduce our absolute costs in 2020. We have benefitted from the significant gas price hedges that we have in place and expect to continue to benefit from the strategy that has seen us increase and extend these hedges this year.

Due to the 45 day shutdown of Bruce facilities, net production for the first six months of this year has been lower than anticipated at 21,600 boe/d. This was coupled with significant falls in commodity prices, average oil prices have been approximately \$41/bbl and average NBP gas prices have been approximately 18p/therm. As a result of these factors our net income has been significantly lower than the corresponding period in 2019.

Despite the resulting reduction in sales revenues, the Group's consolidated balance sheet at mid-year remains robust. We have no borrowings and limited decommissioning liabilities. Cash and cash equivalents plus term deposits at mid-year stood at £101

million which is virtually unchanged from the position at the start of the year. This is despite the fact that to the mid-year we have already invested £7.2 million mainly on the equipment required for the forthcoming R3 intervention project and the Columbus development programme.

Serica remains in growth mode as it looks for new investment opportunities but this still leaves room for a measured distribution policy to reward shareholders for their continuing support. Our maiden dividend of 3 pence per share was announced in April this year and was paid in July. If Serica's financial position remains favourable then it is the intention that a dividend will be paid annually.

We are looking forward to a very active second half of the year. The Awilco WilPhoenix drilling rig has been contracted to conduct the well intervention work on the Rhum R3 well in the fourth quarter of this year. We look forward to being able to commission the R3 well for production in early 2021. Planning for the Columbus development continues and a contract has also been signed for a Maersk rig which will drill the development well in 2021. First production from Columbus is planned for late 2021.

Although we are prepared for further market volatility, we expect oil and gas demand to recover as economies emerge from lock-down. With our strong cash balances, no debt, full-lifecycle operational capability and capacity to grow, Serica is positioned to play a leading role in the recovery. We will continue to increase our focus on ESG issues, in particular our efforts to reduce the carbon intensity of production. We see material benefits for shareholders and other stakeholders as we continue to maximise production and reduce costs in order to generate increased value from our existing assets whilst simultaneously using our strong position to identify growth opportunities for the company.

Mitch Flegg  
Chief Executive Officer  
9 September 2020

## **REVIEW OF OPERATIONS**

### ***UK Operations***

#### **UK Production**

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

Serica is operator of the Bruce facilities which 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. The offshore team is supported onshore from the Serica technical headquarters in Aberdeen.

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.

In late 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 was successfully undertaken during the following weeks. With the caisson sections secured production was restarted on 5 March 2020, considerably ahead of schedule despite some of the worst weather conditions seen in the North Sea for years.

In March, in line with all UK businesses we implemented strict travel policies, reduced manning levels on the Bruce platform to allow social distancing and commenced home working for all onshore-based staff. As the Bruce platform is still responsible for around 5% of the UK's gas production, 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 continue to monitor the evolving situation and are constantly working with our medical advisors to minimise risk to our staff.

Despite the reduced number of personnel offshore we continue to execute our critical planned activities and in 1H 2020 we have successfully completed major overhauls of the export compressors and power generation units. This enables us to export gas for sale whilst at the same time providing gas injection into wells to increase production stability. This is the first time it has been possible to do both in combination since 2015.

The continued focus on operating reliability, lowering emissions and increasing execution efficiency has contributed to our revised opinion of field life extending now to 2028 with further extensions possible depending on the operating environment.

Notwithstanding the 45 day shutdown Bruce field production in 1H 2020 averaged in excess of 9,300 boe/d (1H 2019: 13,300 boe/d) of exported oil and gas net to Serica. Due to the caisson failure, production reliability was 68% whilst excluding the caisson outage it was 92% (1H 2019: 91%).



The latest independent report by Lloyd's Register estimated 2P reserves of 22.2 million boe net to Serica as of 1 January 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. The Keith well was in production in early January but then shutdown as part of the platform response to the damaged caisson. Consequently, Keith made minimal contribution to 1H production (1H 2019 – 700 boe/d). It is expected to return to production in 2<sup>nd</sup> half 2020. We will continue to try low cost options to maximise production over its remaining life.

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

#### Northern North Sea: Rhum Field – Block 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 oil and exported to St Fergus and Grangemouth respectively along with Bruce and Keith production. Both wells are capable of producing at high rates approaching 15,000 boe/d of which some 95% is gas. Rhum production was curtailed during the period due to the 45 day shut-in of the Bruce platform described above thus affecting average production over the period. Average Rhum production from the two wells in 1H 2020 was approximately 9,900 boe/d net to Serica (1H 2019: 14,200 boe/d).

A third well, R3, requires intervention work before it can be brought on production. The well originally encountered technical issues while it was being completed and has remained shut-in ever since. It is now planned to carry out a workover to bring it in to production. This is expected to accelerate field production, reduce dependency on the other two wells and to bring additional reserves into the economic category.

Work started in 1H 2020, when a diving campaign was carried out to confirm that the installed subsea controls for R3 are in good condition, ahead of rig deployment. The initial dive campaign also reinstated a second power channel to the field, increasing reliability.

Awilco's WilPhoenix semi-submersible drilling rig has been contracted to carry out the intervention work. The rig will undertake some pre-mobilisation operations in Invergordon ahead of its expected mobilisation to the Rhum field. The work is expected to take around 70 days to complete. A further diving intervention will then be required to bring the well on production once the rig departs.

The latest independent report by Lloyd's Register estimated Rhum 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%.

The Erskine field is produced through five wells from the Erskine normally unattended installation, with gas and liquids transported via a multiphase pipeline and processed on the Lomond platform which is 100% owned and operated by Chrysaor. 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 flash and export coolers that are part of the Erskine production module located on the Lomond platform were replaced in April. They had been due to be changed during the 2020 Forties Pipeline System turnaround which was planned for June 2020 but deferred due to COVID-19 until May 2021. The regular pigging program on the condensate export line has continued and no indications of wax build-up have been seen.

Erskine production levels in 1H 2020 averaged 2,360 boe/d (1H 2019: over 3,000 boe/d). After shut-ins to replace the coolers and to effect other maintenance this represented reduced production efficiency for 1H 2020 at 72.4%.

The latest independent report by Lloyd's Register estimated Erskine 2P reserves of 4.1 million boe net to Serica as of 1 January 2020.

## **UK Development**

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

Serica is Development Operator with partners Tailwind Mistral Limited (25%) and Waldorf Production Limited (Formerly Endeavour Energy UK Limited) (25%). Columbus is located in the Eastern Central Graben, UK Central North Sea and the reservoir is located within the Forties Sandstone. Columbus has been designated as a Development within the Lomond Field Area; it is however independent of Lomond, having separate development consent, export route and licence terms.

The development comprises a single horizontal subsea well connected to the Arran-Shearwater pipeline, through which Columbus production will be exported along with Arran field production. The Arran export pipeline was approved at a similar time to Columbus and has now been constructed and laid on the seabed, though it has not yet been tied into the Shearwater platform. When production from Arran and Columbus reaches the Shearwater facilities, it will be separated into gas and liquids and exported via the SEGAL line to St Fergus and Forties Pipeline System to Cruden Bay respectively.

Columbus development timing is dependent on the export pipeline being tied into the Shearwater platform; that was originally expected in Q3 2020 but has been delayed by COVID-19 restrictions affecting the timing of work required on the platform. Columbus start-up is now expected to follow the Arran field coming on-line, in late 2021.

Planning for the development began as soon as FDP approval was received in October 2018. Since that time, Serica has worked closely with Shell, the operator of the Arran field, to ensure effective construction and operation of the two developments. Well planning has progressed to the detailed design stage and items with long lead times have been ordered and are being delivered on schedule. Drilling was planned to take place in Q4 2020, but the delay of the pipeline tie-in and concerns about possible COVID-19 impacts have meant a decision was taken to push back the rig contract to a window between March and July 2021; this will optimize the time between drilling and production start-up, minimise coronavirus risk and mean drilling takes place during a likely better weather window.

The latest independent report by Lloyds Register estimated Columbus 2P reserves net to Serica of 6.7 mmboe as at 1 January 2020.

## **UK Exploration**

### North Eigg and South Eigg – Blocks 3/24c and 3/29c, Serica Energy (UK) Limited 100% and operator

In December 2019, Serica was awarded the P2501 Licence as part of an out of round application; this comprises Blocks 3/24c and 3/29c and contains the North Eigg and South Eigg prospects. The official start date for the licence was 1 January 2020. The work programme involves reprocessing seismic and drilling an exploration well within three years of the start of the licence. 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 is expected to be high temperature and high pressure. 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, which are to the south of the prospect. As well as providing Serica with potentially significant additional reserves, a tie-back to the Bruce platform would reduce combined unit operating costs and extend the economic life of this strategic North Sea infrastructure.

### Columbus West – Block 23/21b, Serica Energy (UK) Limited 50%, operator Summit Exploration and Production.

An extensive work programme was undertaken to mature the prospectivity on the licence. Despite this work, stratigraphic trapping and sealing mechanisms for the prospects remained elusive and could not be satisfactorily confirmed.

The seismic data response was also suggestive of oil rather than gas accumulations and the economics were determined not to be favourable for an oil development, as there was no nearby tieback host.

Taking current market outlook into consideration, and the commitment required to move to the next phase of the licence, which would have required relinquishing 50% of the initial licensed area and committing to drill a well, the risk-reward ratio related to proceeding with West Columbus was not deemed sufficient to proceed with exploration drilling.

Serica therefore supported the operator's recommendation to relinquish the licence.

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

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

## ***International Exploration***

### **Namibia**

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

A farm-out campaign is in progress to seek a partner to join Serica in drilling one of the prospects on the blocks. Discussions with the Namibia Ministry of Mines and Energy to extend Serica's interest in the Luderitz Basin blocks have been put on hold due to COVID-19 restrictions and market uncertainties.

## **FINANCIAL REVIEW**

With effect from 1 January 2019, following the change in functional and presentational currency (see note 3), the Group's results are reported in £. This change followed 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 £. Field revenues and costs are booked for Serica's full equity interests and included within gross profits. Under the BKR deals, amounts are due to the asset vendors for net cash flow sharing (50% in 2019 falling to 40% in 2020 and 2021) and certain other deferred payments. Estimates of these amounts were included within the fair value upon acquisition and subsequent changes are included as 'Change in fair value of BKR financial liability' within profit before tax. Such variations are driven principally by changes in commodity sales prices and production volumes.

### **1H 2020 RESULTS**

Results for the first six months of 2020 were impacted by a 45 day shut in of the BKR fields to secure a damaged caisson on the Bruce platform and by the COVID-19 crisis which caused unprecedented falls in both oil and gas prices. However, these impacts upon Serica were mitigated by two key factors. Firstly, net cash flow sharing payments under the BKR deals were significantly reduced in line with lower net cash income generated during the period and with further reductions projected in remaining payments. Secondly, Serica had in place gas price hedging for the period covering approximately 50% of retained gas sales after adjustment for net cash flow sharing. The overall impact was that although after non-cash depletion charges this generated gross and operating losses, these were more than offset by a release of BKR liabilities delivering an overall profit before tax. The combination of these risk mitigation measures with a strong debt-free balance sheet has been of particular importance during a period of unprecedented challenge.

Overall, Serica generated a profit before taxation for 1H 2020 of £20.4 million compared to £51.9 million for 1H 2019. After non-cash deferred tax provisions of £8.0 million (1H 2019: £21.9 million), profit for the period was £12.4 million compared to £30.0 million for 1H 2019.

### **Sales revenues**

Total sales volumes of 21,000 boe/d were reduced from 31,000 boe/d for 1H 2019 primarily reflecting the impact of the Bruce caisson shut-in. Total product sales volumes for the half year comprised approximately 177 million therms of gas (1H 2019: 255 million therms), 534,000 lifted barrels of oil (1H 2019: 892,000 barrels) and 32,100 metric tonnes of NGLs (1H 2019: 41,000 metric tonnes). These generated total 1H 2020 product sales revenue of £46.0 million (1H 2019: £146.4 million) consisting of BKR revenues of £37.7 million (1H 2019: £126.6 million) and Erskine revenues of £8.3 million (1H 2019: £19.8 million). This represented average sales prices net of system fees of 14 pence per therm (1H 2019: 36 pence per therm), US\$41.4 per barrel (1H 2019: US\$62.7 per barrel) and £144 per metric tonne (1H 2019: £277 per metric tonne) respectively giving a combined realised sales price for lifted volumes of US\$15.20 per barrel of oil equivalent (1H 2019: US\$34 per boe). This is before gas price hedging gains detailed below.

### **Gross loss**

The gross loss for 1H 2020 was £19.8 million compared to a gross profit of £52.4 million for 1H 2019. Overall cost of sales of £65.7 million compared to £93.9 million for 1H 2019. This comprised £45.8 million of operating costs (1H 2019: £53.2 million) and £18.7 million of non-cash depletion charges (1H 2019: £37.3 million) plus £1.2 million representing a reduction during the period of the opening liquids underlift position (1H 2019: £3.4 million). The reductions in both operating costs and depletion charges largely reflected lower production volumes. Operating costs comprise costs of production,

processing, transportation and insurance and averaged approximately US\$15.12 per boe (1H 2019: US\$12.30). An overall reduction in operating costs was achieved despite exceptional expenditures of £2.8 million net to Serica on Bruce caisson repairs and reflected a reduction in underlying costs of some 10%. The increase in operating costs per barrel for the period reflected lower production volumes arising from the caisson shut-in whilst the fixed element of operating costs continued to be incurred and does not reflect an increase in the underlying trend.

Overall, despite the unprecedented fall in oil and gas sales prices and the loss of 45 days of BKR production, sales revenues (excluding hedging gains) covered operating costs for the period. This is before movements in oil stocks and non-cash depletion charges which mainly comprise the booked acquisition values for the BKR transactions allocated on a unit of production basis for the relevant period.

***Operating loss before BKR fair value adjustment, net finance revenue, and tax***

The operating loss for 1H 2020 was £12.7 million compared to a profit of £52.5 million for 1H 2019. This included £8.3 million of other income from commodity price hedging gains (1H 2019: £3.2 million) representing the increase in fair value of hedging instruments in place at 31 December 2019 plus the fair value of further hedging instruments added during 1H 2020 less the fair value of hedging gains already booked in 2019. Administrative expenses of £2.8 million compared to £3.0 million for 1H 2019. These, plus share-based payments of £0.7 million (1H 2019: £0.7 million), were offset by currency gains of £2.5 million (1H 2019: £0.6 million) largely arising on US\$ holdings.

***Profit before taxation and profit for the period after taxation***

Profit before taxation was £20.4 million (1H 2019: £51.9 million) after a change in fair value of the BKR financial liability of £33.0 million plus net finance revenue of £0.1 million (1H 2019: net costs of £0.6 million). Net finance revenue/costs represent the discount unwind on decommissioning provisions less interest earned on cash deposits.

The gain of £33.0 million (1H 2019: £nil) arises 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 at each financial period end. The most significant factors behind the downward revision released to the income statement are lower production volumes and realised gas pricing on net cash flow payments in respect of 1H 2020 plus lower gas prices used in the forecast of remaining 2020 and 2021 net cash flow payments.

The 1H 2020 taxation charge of £8.0 million (1H 2019: £21.9 million) solely comprised a non-cash deferred tax element. 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 commence.

Overall, this generated a profit after taxation for the first six months of 2020 of £12.4 million compared to a profit after taxation of £30.0 million for 1H 2019 and a profit after taxation of £64.0 million for full year 2019.

***BALANCE SHEET***

The balance sheet at 30 June 2020 demonstrates Serica's resilience during this turbulent period with cash steady after significant expenditures on Columbus development and R3 preparations and with no borrowings.

Exploration and evaluation assets of £4.0 million showed a small increase from £3.7 million at the end of 2019 reflecting limited exploration activities during the period.

Property, plant and equipment principally comprises the net book amount of oil and gas assets calculated in accordance with applicable accounting standards. Total property, plant and equipment decreased from £325.4 million at year end 2019 to £313.2 million at 30 June 2020 after capital expenditure on Columbus and Rhum during 1H 2020 of £6.5 million (1H 2019: £1.5 million) and depletion charges for 1H 2019 of £18.7 million (1H 2019: £37.3 million). Depletion charges represent the allocation of field capital costs over the estimated producing life of each field.

An inventories balance of £4.6 million at 30 June 2020 showed little change from £4.7 million at the end of 2019. A reduction in trade and other receivables from £35.9 million at the end of 2019 to £24.3 million at 30 June 2020 reflected lower pricing for oil and gas sales invoices outstanding at 30 June 2020. A reduction in the derivative financial asset from £6.9 million at year end 2019 to £3.6 million at 30 June 2020 reflected reduced commodity price hedges outstanding at mid-year and does not include further hedge instruments put in place since 30 June 2020.

Cash balances of £101.1 million at 30 June 2020 showed little change from £101.8 million 31 December 2019 despite capital expenditures and BKR acquisition payments during the period.

Current trade and other payables of £25.5 million at 30 June 2020 showed little change from a 2019 balance of £24.6 million.

The dividend payable of £8.0 million at 30 June 2020 (31 December 2019: £nil) represents the final cash dividend for 2019 of 3 pence per share proposed in April 2020 and approved at the annual general meeting on 25 June 2020. The dividend was paid in July 2020.

Financial liabilities of £39.6 million (31 December 2019: £45.4 million) included within current liabilities and £67.9 million (31 December 2019: £110.1 million) included within non-current liabilities comprise total remaining amounts projected to be paid under the BKR agreements.

The current liability comprises amounts estimated to fall due under the net cash flow sharing arrangements over the next twelve months, an element of contingent consideration in respect of Rhum field performance estimated to fall due, and further fixed amounts also due over the next twelve months. The non-current element comprises estimated amounts payable under the net cash flow sharing arrangements for the final six-month period of July to December 2021 and further contingent and deferred payments, including deferred consideration in respect of BKR decommissioning. 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.

The overall reduction in financial liabilities of £48.0 million during 1H 2020 comprises cash amounts of £15.0 million paid in the period and £33.0 million released through the income statement due to lower than previously forecast net cash flow sharing payments in respect of 1H 2020 plus a re-assessment of the estimated fair value of projected remaining payments as at 30 June 2020.

Non-current provisions of £22.8 million have been made in respect of decommissioning liabilities for the Bruce and Keith interests acquired from Marubeni (31 December 2019: £22.6 million). These were not subject to the same 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.

The deferred tax liability of £83.8 million at 30 June 2020 has increased from £75.8 million at year end 2019 and reflects provisions against future tax charges expected once the Group's tax losses have been fully utilised.

Overall net assets have increased from £198.0 million at year end 2019 to £203.1 million at 30 June 2020.

The increase in share capital from £181.4 million to £181.5 million arose from shares issued following the exercise of share options and shares issued under an employee share scheme, whilst the increase in other reserves from £17.8 million to £18.5 million arose from share-based payments related to share option awards.

## **CASH BALANCES AND FUTURE COMMITMENTS**

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

At 30 June 2020 the Group held cash and cash equivalents of £101.1 million (31 December 2019: £101.8 million). This is after monthly net cash flow sharing payments and other BKR deferred consideration totalling £15.0 million and £6.6 million of capital expenditures primarily on Columbus development and Rhum R3 preparations. Amounts due under the net cash flow sharing arrangements have fallen from 50% of BKR net operating cash flows for 2019 to 40% for 2020 and 2021 and will be zero thereafter. £12.1 million of total cash and cash equivalents was held in a restricted account against letters of credit issued in respect of certain decommissioning liabilities.

At 30 June 2020 Serica held gas price swaps set at 37.6 pence per therm covering 80,000 therms per day for Q3 2020, set at an average 40.3 pence per therm covering an average 140,000 therms per day for Q4 2020 and set at an average 42.5 pence per therm covering an average 185,000 therms per day for Q1 2021.

In Q3 2020 to date, Serica has obtained additional gas price swaps covering 50,000 therms per day for Q4 2020 at an average of 26.7 pence per therm, 100,000 therms per day for Q2 2021 at an average of 30.0 pence per therm, 100,000 therms per day for Q3 2021 at an average of 29.0 pence per therm, 100,000 therms per day for Q4 2020 at an average of 37.8 pence per therm, 100,000 therms per day for Q1 2022 at an average of 43.1 pence per therm, and 50,000 therms per day for Q2 2022 at 34.8 pence per therm.

Following onset of the COVID-19 crisis, cash projections were 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 Q2 2022. The BKR net cash flow sharing arrangements and structuring of elements of 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***

There are no existing capital commitments on the Erskine producing field and net production revenues are expected to cover all ongoing field expenditures. Serica's share of decommissioning costs relating to its 18% Erskine field interest will be met by BP up to a level of £31.3 million, adjusted for inflation, and Serica's current estimate of such costs is below this level.

There are no significant existing capital commitments on the BKR producing fields other than an estimated £11 million net to Serica for a Rhum R3 well workover, expected to be carried out in in Q4 2020. Potential further programmes to enhance current production profiles and extend field life are under consideration. Net revenues from 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.

The Columbus development is underway with first gas expected in late 2021. Total development expenditure net to Serica's share outstanding at 30 June 2020 is estimated at approximately £22 million.

The Group has no significant exploration commitments apart from a well on the North Eigg prospect to be drilled within three years of the 1 January 2020 licence award.

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

On 30 November 2018 Serica completed the four BKR acquisitions. The following elements of consideration were outstanding at 30 June 2020:

- A contingent payment of £16.0 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 commodity 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 potential consideration for the three years of £23.1 million and any necessary adjustment made. The payment calculated in respect of 2019 and made in 1H 2020 was £2.6 million and payments for the remaining periods are expected to be significantly reduced from the total potential amount based upon current actual and projected production volumes and market prices.
- One further instalment of deferred consideration of US\$5 million is due to Total E&P in 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 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 30 June 2020, Serica's market capitalisation stood at £291.6 million based upon a share price of 109.0 pence which exceeded the net asset value of £203.1 million. By 8 September the Company's market capitalisation had risen to £296.9 million.

**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)

Approved on behalf of the Board  
Mitch Flegg  
Chief Executive Officer

9 September 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.

**Serica Energy plc**  
**Group Income Statement**

For the period ended 30 June

		Six months ended 30 June 2020 £000 (Unaudited)	Six months ended 30 June 2019 £000 (Unaudited)	Year ended 31 Dec 2019 £000 (Audited)
<b>Continuing operations</b>	<i>Notes</i>			
<b>Sales revenue</b>	5	45,953	146,375	250,533
Cost of sales	6	(65,720)	(93,941)	(164,748)
<b>Gross (loss)/profit</b>		(19,767)	52,434	85,785
Other income	13	8,347	3,230	10,618
Pre-licence costs		-	(98)	(566)
Impairment and write-off of E&E assets	8	(266)	(9)	(80)
Administrative expenses		(2,844)	(2,992)	(5,963)
Foreign exchange gain/(loss)		2,514	591	(1,020)
Share-based payments		(652)	(650)	(1,094)
<b>Operating (loss)/profit from continuing operations</b>		(12,668)	52,506	87,680
Change in fair value of BKR financial liability		32,979	-	21,771
Finance revenue		376	122	571
Finance costs		(263)	(698)	(1,252)
<b>Profit before taxation</b>		20,424	51,930	108,770
Taxation charge for the period	12	(8,010)	(21,883)	(44,750)
<b>Profit after taxation and profit for the period</b>		12,414	30,047	64,020
<b>Earnings per ordinary share (EPS)</b>				
Basic EPS on profit for the period (£)		0.05	0.11	0.24
Diluted EPS on profit for the period (£)		0.05	0.11	0.23

**Serica Energy plc**  
**Group Balance Sheet**

		30 June 2020 £000 (Unaudited)	31 Dec 2019 £000 (Audited)	30 June 2019 £000 (Unaudited)
	Notes			
<b>Non-current assets</b>				
Exploration & evaluation assets	8	4,009	3,652	3,367
Property, plant and equipment	9	313,171	325,404	337,825
		<u>317,180</u>	<u>329,056</u>	<u>341,192</u>
<b>Current assets</b>				
Inventories		4,629	4,671	5,763
Trade and other receivables		24,268	35,906	39,059
Derivative financial asset		3,572	6,880	2,616
Term deposits		-	-	3,940
Cash and cash equivalents		101,114	101,825	84,229
		<u>133,583</u>	<u>149,282</u>	<u>135,607</u>
<b>TOTAL ASSETS</b>				
		<u>450,763</u>	<u>478,338</u>	<u>476,799</u>
<b>Current liabilities</b>				
Trade and other payables		(25,489)	(24,600)	(27,843)
Financial liabilities		(39,551)	(45,351)	(79,269)
Provisions		-	(1,848)	(1,848)
Dividend payable	7	(8,026)	-	-
<b>Non-current liabilities</b>				
Financial liabilities		(67,910)	(110,108)	(132,411)
Provisions		(22,816)	(22,590)	(22,903)
Deferred tax liability		(83,841)	(75,831)	(42,194)
<b>TOTAL LIABILITIES</b>		<u>(247,633)</u>	<u>(280,328)</u>	<u>(306,468)</u>
<b>NET ASSETS</b>				
		<u>203,130</u>	<u>198,010</u>	<u>170,331</u>
<b>Share capital</b>				
Share capital	10	181,465	181,385	180,322
Other reserves		18,470	17,818	17,374
Accumulated funds/(deficit)		3,195	(1,193)	(27,365)
<b>TOTAL EQUITY</b>		<u>203,130</u>	<u>198,010</u>	<u>170,331</u>

**Serica Energy plc**  
**Group Statement of Changes in Equity**

For the year ended 31 December 2019 and period ended 30 June 2020

**Group**

	Share capital £000	Other reserves £000	Deficit £000	Total £000
At 1 January 2019 *restated	180,294	16,724	(65,213)	131,805
Profit for the year	-	-	64,020	64,020
Total comprehensive income	-	-	64,020	64,020
Issue of shares	1,091	-	-	1,091
Share-based payments	-	1,094	-	1,094
At 31 December 2019 (audited)	181,385	17,818	(1,193)	198,010
Profit for the period	-	-	12,414	12,414
Total comprehensive income	-	-	12,414	12,414
Issue of shares	80	-	-	80
Share-based payments	-	652	-	652
Dividend payable	-	-	(8,026)	(8,026)
At 30 June 2020 (unaudited)	181,465	18,470	3,195	203,130

\* 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.

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

For the periods ended 30 June and 31 December

	Six months ended 30 June 2020 £000 (Unaudited)	Six months ended 30 June 2019 £000 (Unaudited)	Year ended 31 Dec 2019 £000 (Audited)
<b>Operating activities:</b>			
Profit for the period	12,414	30,047	64,020
<i>Adjustments to reconcile profit for the period to net cash flow from operating activities:</i>			
Taxation charge	8,010	21,883	44,750
Change in fair value of BKR financial liability	(32,979)	-	(21,771)
Net finance (income)/costs	(113)	576	681
Depletion	18,718	37,333	52,631
Oil and NGL over/underlift movement	1,199	3,370	6,969
Impairment and write-off of E&E assets	266	9	80
Unrealised hedging losses/(gains)	3,308	(2,478)	(6,742)
Share-based payments	652	650	1,094
Other non-cash movements	(1,838)	(591)	638
Decrease in receivables	10,185	9,731	6,147
Decrease/(increase) in inventories	42	(210)	(386)
Decrease in payables	(592)	(10,544)	(11,234)
<b>Net cash inflow from operations</b>	<b>19,272</b>	<b>89,776</b>	<b>136,877</b>
<b>Investing activities:</b>			
Interest received	376	122	571
Purchase of E&E assets	(623)	(193)	(549)
Purchase of property, plant & equipment	(6,598)	(1,472)	(4,736)
Cash outflow from business combinations	(15,019)	(41,481)	(57,259)
Changes in term deposits	-	(2,940)	1,000
<b>Net cash outflow from investing activities</b>	<b>(21,864)</b>	<b>(45,964)</b>	<b>(60,973)</b>
<b>Financing activities:</b>			
Issue of ordinary shares	80	28	1,091
Repayments of borrowings	-	(2,040)	(15,673)
Finance costs paid	(37)	(27)	(962)
<b>Net cash in/(out)flow from financing activities</b>	<b>43</b>	<b>(2,039)</b>	<b>(15,544)</b>
<b>Cash and cash equivalents</b>			
Net (decrease)/increase in period	(2,549)	41,773	60,360
Effect of exchange rates on cash and cash equivalents	1,838	353	(638)
Amount at start of period	101,825	42,103	42,103
<b>Amount at end of period</b>	<b>101,114</b>	<b>84,229</b>	<b>101,825</b>

## **Serica Energy plc**

### **Notes to the Unaudited Consolidated Financial Statements**

#### **1. Corporate information**

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 were authorised for issue in accordance with a resolution of the directors on 9 September 2020.

Serica Energy plc is a public limited company incorporated and domiciled in England & Wales. The Company's ordinary shares are traded on AIM in London. The principal activity of the Company is to identify, acquire and exploit oil and gas reserves.

#### **2. Basis of preparation and accounting policies**

##### **Basis of Preparation**

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

These unaudited interim consolidated financial statements of the Group have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended 31 December 2019. These unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the consolidated financial statements and the notes thereto in the Serica Energy plc annual report for the year ended 31 December 2019.

The financial information contained in this announcement does not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006.

Consolidated statutory accounts for the year ended 31 December 2019, on which the auditors gave an unqualified audit report, have been filed with the registrar of Companies. The report of the auditors included in that 2019 Annual Report was unqualified and did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006.

##### **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 30 June 2020 the Company held cash and cash equivalents of £101.1 million of which £12.1 million was held in a restricted account against letters of credit issued in respect of certain decommissioning liabilities. The bulk of contingent and deferred consideration due under the BKR acquisition agreements is related to successful future field performance and consequently will be either reduced or deferred in the event of production interruptions or lower net cash generation.

After making enquiries and having taken into consideration the above factors, the Directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.



## **Significant accounting policies**

A number of new standards, amendments to existing standards and interpretations were applicable from 1 January 2020. The adoption of these amendments did not have a material impact on the Group's interim condensed consolidated financial statements for the period ended 30 June 2020.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019. The impact of seasonality or cyclicity on operations is not considered significant on the interim consolidated financial statements.

The Group financial statements are presented in £ and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Serica Holdings UK Limited, Serica Energy Holdings B.V., Serica Energy Corporation, Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited, Serica Energy (UK) Limited, PDA Lematang Limited, Serica Glagah Kambuna B.V., Serica Sidi Moussa B.V., Serica Energy Rockall B.V., Serica Energy Slyne B.V. and Serica Energy Namibia B.V.. Together, these comprise the "Group".

All inter-company balances and transactions have been eliminated upon consolidation.

### **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 developments within the Group's operations following completion of the BKR acquisitions on 30 November 2018, the directors 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 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 and Annual Financial Statements were presented in £ and future Group and Company financial statements, including the Group 2020 Interim Financial Statements, are/will also be presented in £.

The presentation currency for the Group has also been changed to £ from 1 January 2019 and represents a voluntary change in accounting policy with retrospective effect on restated 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 was translated to £ using the £/US\$ closing rate applicable for the same date.

#### 4. Segmental Information

The Group's business is that of oil & 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 periods ended 30 June 2020 and 2019 and year ended 31 December 2019. Costs associated with the UK corporate centre are included in the UK reportable segment (2019: UK & Ireland).

Period ended 30 June 2020

	UK £000	Africa £000	Continuing Total £000
<b>Revenue</b>	45,953	-	45,953
Operating and segment loss	(12,668)	-	(12,668)
Change in BKR financial liability	32,979	-	32,979
Finance revenue	376	-	376
Finance costs	(263)	-	(263)
Profit before taxation	20,424	-	20,424
Taxation charge for the period	(8,010)	-	(8,010)
<b>Profit after taxation</b>	12,414	-	12,414
	UK £000	Africa £000	Total £000
Other segment information:			
Segmental assets	447,312	3,451	<u>450,763</u>
<b>Total assets</b>			<u>450,763</u>
Segment liabilities	(247,599)	(34)	<u>(247,633)</u>
<b>Total liabilities</b>			<u>(247,633)</u>

Period ended 30 June 2019	UK & Ireland £000	Africa £000	Continuing Total £000
<b>Revenue</b>	146,375	-	146,375
Operating and segment profit	52,506	-	52,506
Finance revenue	122	-	122
Finance costs	(698)	-	(698)
Profit before taxation	51,930	-	51,930
Taxation charge for the period	(21,883)	-	(21,883)
<b>Profit after taxation</b>	30,047	-	30,047

	UK & Ireland £000	Africa £000	Total £000
Other segment information:			
Segmental assets	473,609	3,190	476,799
<b>Total assets</b>			476,799
Segment liabilities	(306,327)	(141)	(306,468)
<b>Total liabilities</b>			(306,468)

Year ended 31 December 2019	UK & Ireland £000	Africa £000	Continuing Total £000
<b>Revenue</b>	250,533	-	250,533
Operating and segment profit	87,680	-	87,680
Change in BKR financial liability	21,771	-	21,771
Finance revenue	571	-	571
Finance costs	(1,252)	-	(1,252)
Profit before taxation	108,770	-	108,770
Taxation charge for the year	(44,750)	-	(44,750)
<b>Profit after taxation</b>	64,020	-	64,020

	UK & Ireland £000	Africa £000	Total £000
Other segment information:			
Segmental assets	474,990	3,348	478,338
<b>Total assets</b>			478,338
Segment liabilities	(280,324)	(4)	(280,328)
<b>Total liabilities</b>			(280,328)

## 5. Sales Revenue

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019 £000	Year ended 31 Dec 2019 £000
Gas sales	24,071	91,882	152,586
Oil sales	17,269	43,163	75,237
NGL sales	4,613	11,330	22,710
	<u>45,953</u>	<u>146,375</u>	<u>250,533</u>

Revenues include product sales from Serica's full interests in the BKR assets before calculation of amounts due under the net cash flow sharing arrangements.

## 6. Cost of sales

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019 £000	Year ended 31 Dec 2019 £000
Operating costs	45,803	53,238	105,148
Movement in liquids overlift/underlift	1,199	3,370	6,969
Depletion (note 9)	18,718	37,333	52,631
	<u>65,720</u>	<u>93,941</u>	<u>164,748</u>

Operating costs include costs from Serica's full interests in the BKR assets before calculation of amounts due under the net cash flow sharing arrangements.

## 7. Dividends payable

A final cash dividend for 2019 of 3 pence per share was proposed in April 2020 and approved at the annual general meeting on 25 June 2020. Following the approval in the 1H 2020 period, the dividend payable of £8.0 million is recognised as a liability as at 30 June 2020. The dividend was paid in July 2020.

## 8. Exploration and Evaluation Assets

	Total £000
Cost:	
At 1 January 2019	3,183
Additions	549
Asset write-offs	(80)
At 31 December 2019	<u>3,652</u>
Additions	623
Asset write-offs	(266)
At 30 June 2020	<u><u>4,009</u></u>
Provision for impairment:	
At 1 January 2019	-
Impairment reversal for the period	-
At 31 December 2019	<u>-</u>
Impairment (charge)/reversal for the period	-
At 30 June 2020	<u><u>-</u></u>
Net Book Amount:	
30 June 2020	<u><u>4,009</u></u>
31 December 2019	<u><u>3,652</u></u>
1 January 2019	<u><u>3,183</u></u>

The 1H 2020 asset write-off of £0.3 million comprised minor charges following the relinquishment of UK Licence P2388 Block 23/21b. The 2019 asset write-off comprised minor charges following the relinquishment of UK Licence P1620 Block 22/19c and final costs incurred on the Group's Irish licences.

## 9. Property, Plant and Equipment

	Oil and gas properties £000	Fixtures and fittings £000	Right-of-use assets £000	Total £000
<b>Cost:</b>				
At 1 January 2019	383,033	212	-	383,245
Additions	4,558	-	516	5,074
Revisions	(570)	-	-	(570)
At 31 December 2019	387,021	212	516	387,749
Additions	6,598	-	-	6,598
At 30 June 2020	393,619	212	516	394,347
<b>Depreciation and depletion:</b>				
At 1 January 2019	9,524	-	-	9,524
Charge for the period (note 6)	52,631	61	129	52,821
At 31 December 2019	62,155	61	129	62,345
Charge for the period (note 6)	18,718	27	86	18,831
At 30 June 2020	80,873	88	215	81,176
<b>Net book amount:</b>				
At 30 June 2020	312,746	124	301	313,171
At 31 December 2019	324,866	151	387	325,404
At 1 January 2019	373,509	212	-	373,721

### Depreciation and depletion

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.

## 10. Equity Share Capital

As at 30 June 2020, the share capital of the Company comprised one "A" share of £50,000 and 267,521,738 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	Premium	Share capital
		£000	£000	£000
At 1 January 2019	264,757,820	20,862	159,432	180,294
Shares issued	2,472,397	200	891	1,091
At 31 December 2019	267,230,217	21,062	160,323	181,385
Shares issued	291,522	23	57	80
At 30 June 2020	267,521,739	21,085	160,380	181,465

During 1H 2020 291,522 ordinary shares were issued to satisfy awards under the Company's Share Incentive Plan.

87,848 ordinary shares have been issued in Q3 2020 to date and as at 9 September 2020 the issued voting share capital of the Company was 267,609,586 ordinary shares and one "A" share.

## 11. 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 Executive Directors, 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 Executive Directors, 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 30 June 2020, 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.

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

No options were granted in 2019 or 1H 2020 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>WAEP</b>
		<b>£</b>
Outstanding at 1 January 2019	6,465,550	0.25
Exercised during the year	(1,887,500)	0.48
Expired during the period	-	-
Outstanding at 31 December 2019 and 30 June 2020	4,578,050	0.11

As at 30 June 2020, the following director and employee share options were outstanding:



<b>Expiry Date</b>	<b>Amount</b>	<b>Exercise cost £</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 Executive Directors and employees under the LTIP are outstanding as at 30 June 2020.

LTIP awards (deemed to be granted in November 2017 under IFRS 2)

<i>Director/Employees</i>	<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.

<i>Director/Employees</i>	<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 30 June 2020.

### 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 822,134 ordinary shares for the executive directors and persons discharging managerial responsibilities as follows:

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

These awards are subject to vesting criteria based on absolute share price performance over a three-year period and are not exercisable as at 30 June 2020.

### LTIP awards in 2020

In May 2020, the Company granted nil-cost options over a total of 2,669,280 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 772,200 ordinary shares for the executive directors and persons discharging managerial responsibilities as follows:

<i>Director/PDMR</i>	<b>Total number of shares granted subject to Performance Share Awards</b>
Antony Craven Walker	386,100
Mitch Flegg	386,100
	<hr/>
	772,200
	<hr/> <hr/>

These awards are subject to vesting criteria based on absolute share price performance over a three-year period and are not exercisable as at 30 June 2020.

### **Calculation of 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.

£652,000 has been charged to the income statement for the six-month period ended 30 June 2020 (1H 2019 – £650,000) and a similar amount credited to the share-based payments reserve, classified as 'Other reserve' in the Balance Sheet.

## 12. Taxation

The major components of income tax charged in the consolidated income statement are:

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019 £000	Year ended 31 Dec 2019 £000
Current income tax charge	-	-	-
Deferred income tax charge	(8,010)	(21,883)	(44,750)
Total taxation charge for the period	<u>(8,010)</u>	<u>(21,883)</u>	<u>(44,750)</u>

### *Recognised and unrecognised tax losses*

The Group's Balance Sheet net deferred tax liability amounts of £75.8 million as at 31 December 2019 and £83.8 million as at 30 June 2020 arise from deferred tax liabilities (primarily related to temporary differences on fixed assets) being partially offset by deferred tax assets on existing tax losses, deductibles under the Net Cash Flow Sharing Deed and decommissioning liabilities.

The Group's deferred tax assets at 31 December 2019 and 30 June 2020 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 and 30 June 2020 with respect to ring fence losses and allowances.

The Group had UK ring fence tax losses of approximately £40.2 million available as at 31 December 2019 that are available indefinitely for offset against future ring fence trading profits of the company in which the losses arose.

### *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%.

### 13. Financial and derivative financial instruments

#### *Financial instruments*

The Group's financial instruments comprise cash and cash equivalents, bank loans and borrowings, accounts payable and accounts receivable. It is management's opinion that the fair values of its financial instruments approximate to their carrying values.

#### *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) which expired on 30 June 2020 was previously 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).

#### *Other income/(losses)*

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019 £000	Year ended 31 Dec 2019 £000
Realised hedging gains	11,655	752	3,876
Unrealised hedging (losses)/gains	(3,308)	2,478	6,742
Other income	8,347	3,230	10,618

### 14. Publication of Non-Statutory Accounts

The financial information contained in this interim statement does not constitute statutory accounts as defined in the Companies Act 2006. The financial information for the full preceding year is based on the statutory accounts for the financial year ended 31 December 2019, which are available at the Company's registered office at 48 George Street, London W1U 7DY and on its website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

This interim statement will be made available at the Company's registered office at 48 George Street, London W1U 7DY and on its website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## **GLOSSARY**

bbl	barrel of 42 US gallons
bcf	billion standard cubic feet
boe	barrels of oil equivalent (barrels of oil, condensate and NGLs plus the heating equivalent of gas converted into barrels at the appropriate rate)
BKR Assets	Bruce, Keith and Rhum fields
CPR	Competent Persons Report
FDP	Field Development Plan
HPHT	High pressure high temperature
mscf	thousand standard cubic feet
mmbbl	million barrels
mmboe	million barrels of oil equivalent
mmscf	million standard cubic feet
mmscfd	million standard cubic feet per day
NBP	National Balancing Point for pricing and delivery of gas sales
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 (November 6th, 2018) prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE)
Tcf	trillion standard cubic feet
UKCS	United Kingdom Continental Shelf