Serica Energy plc

("Serica" or the "Company")

Results for the year ended 31 December 2019

London, 23 April 2020 - Serica Energy plc (AIM: SQZ), a British independent upstream oil and gas company with operations centred on the UK North Sea and over 80% gas production, today announces its financial results for the year ended 31 December 2019. The results are included below and copies are available at www.serica-energy.com and www.sedar.com.

Corporate Highlights

- Successful first full year of Bruce, Keith and Rhum ("BKR") operatorship with production volumes increased and costs reduced
- 2019 Group average production over 30,000 boe per day net to Serica compared to 25,450 boe per day for 2018 including BKR volumes for the full year
- Combined field operating costs per boe reduced by 30% to US$12.60 per boe (2018: US$18 per boe)
- Gross profit, operating profit and cash flow from operations all increased by substantial margins
- Healthy cash balances, low operating costs, gas hedging and the flexible structure of the BKR net cash flow sharing arrangements put Serica in a strong position to weather current market turbulence
- In light of the strong financial position of the Company, the Board is recommending the payment of a maiden dividend of 3 pence per share to be proposed at this year's AGM

Financial

- Gross profit increased more than four-fold to £85.8 million (2018: £20.0 million) and operating profit increased eleven-fold to £87.7 million (2018: £8.0 million)
- Average realised sales price of US$30 per boe (80% gas) before hedging gains (2018: US$45 per boe incl. BKR revenues) and average operating cost of US$12.60 per boe for 2019 (2018: US$18 per boe incl. BKR costs)
- Cash flow from operations of £136.9 million compared to a net out flow of £9.9 million for 2018 leaving closing cash and term deposits of £101.8 million (2018: £43.1 million) after payment of £61.7 million of BKR liabilities
- Group profit after tax of £64.0 million (2018: £51.5 million) showed a 24% increase. This figure includes a non-cash deferred tax provision of £44.8 million (2018 - £12.0 million release)

Operational

- The Bruce, Keith and Rhum fields in their first full year of Serica operatorship produced 27,300 boe per day compared to 23,800 for full year 2018

- The Erskine field has continued its strong performance since completion of the export line bypass in late 2018 averaging 2,700 boe per day during 2019 compared to 650 boe per day for 2018

- Combined field operating costs per boe reduced by 30% compared to previous year - reflects both higher production volumes and a lower cost base

- Work continues on preparations for the Rhum R3 intervention project and the timing is under review

- The Columbus development programme is underway with a drilling rig contracted and first gas now expected in late 2021. This represents an approximate six-month delay to match the deferred commissioning of the Arran to Shearwater pipeline

- An updated independent audit of Serica's field reserves has reported Serica's share of estimated remaining 2P reserves to 62.3 million boe as at 1 January 2020, an 8% increase over the 68.8 million boe reported at 1 January 2019 after adjustment for 2019 production

Outlook

- Serica combines robust financial health, increased production levels and no borrowings or unfunded liabilities with a strong operating capability

- This puts the Company in an exceptional position to weather the current market uncertainties and seek new investment opportunities

- Serica's retained cash flows from its BKR interests acquired from BP, Total E&P and BHP increase from 50% in 2019 to 60% in 2020, a 20% uplift

- Subject to shareholder approval the dividend of 3 pence per share will be payable on 24 July 2020 to shareholders registered on 26 June 2020 with an ex-dividend date of 25 June 2020

COVID-19

- Serica swiftly put contingency measures in place and has experienced no interruption in production due to the COVID-19 outbreak

- The health and safety of employees remains Serica's top priority and the Company continues to monitor the ongoing situation

Other

- Serica is delighted to announce that Kate Coppinger has accepted an invitation to join Serica's Board as a Non-Executive Director with immediate effect. Kate initially worked for CIBC World Markets as a research analyst before joining Harrison Lovegrove in 2000 where she moved into transaction execution. Following the acquisition of Harrison Lovegrove by Standard Chartered Bank in September 2007, Kate continued in oil and gas M&A transactions and in 2014 was appointed Managing Director, Oil & Gas Corporate

Finance subsequently becoming Managing Director, Oil & Gas and Chemicals, a position she held until leaving Standard Chartered Bank in 2020. Kate will stand for election by shareholders at the Annual General Meeting planned to be held in June 2020

- As a demonstration of its commitment to reporting transparency, Serica has today published its first ever Environmental, Social and Governance ("ESG") Report. This report can be accessed at www.serica-energy.com

Commenting on the results, Mitch Flegg, Serica's CEO stated:

"2019 was a year of exceptionally strong performance in an increasingly challenging environment. We have established Serica as one of the leading UKCS operating companies, as clearly demonstrated by increased production levels and reduced operating costs. This is a major credit to our talented and motivated staff.

We entered 2020 in an extremely robust financial position with no borrowings, a decreasing cost profile, an increasing cash position and limited decommissioning obligations. This provides the flexibility to meet the challenges the industry faces in the short term and pursue growth opportunities.

In view of the Company's strong position, the Board has decided to recommend a maiden dividend this year."

Adding further comment, Tony Craven Walker, Serica Chairman stated:

"Serica has had an extremely good year. Although the oil and gas industry is currently facing unprecedented challenges, Serica is very well placed to build on its strong technical, operational and financial performance. Our debt-free balance sheet results from the cautious approach which we took during the past year and gives us a strong position from which to identify new opportunities for value growth as the industry enters a period of transition."

A conference call for analysts will be held later today at 11.00 a.m. (UK time), Thursday 23 April. If you would like to participate, please email serica@instinctif.com. A copy of the accompanying presentation can be found on our website: 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 Clara Altobell, VP Technical at Serica Energy plc. Clara Altobell (MSc in Petroleum Engineering from Imperial College, London) has over 20 years of experience in oil & gas exploration, production and development and is a member of the Society of Petroleum Engineers (SPE) and the Petroleum Exploration Society of Great Britain (PESGB).

The following information is disclosed in respect of Katherine Jane Coppinger (née Sansom) (age 49) pursuant to Schedule 2(g) of the AIM Rules for Companies:

Current Directorships	Directorships and partnerships held in the past five years
None	None

Kate Coppinger does not hold any ordinary shares nor options over ordinary shares in the Company. There is no further information which is required to be disclosed under Schedule Two, paragraph (g) of the AIM Rules for Companies in respect of Kate Coppinger.

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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.

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.

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 68.8mmboe at 1 January 2019 and our 2019 net production was 11.0mmboe but due to these upgrades, after reclassification and revisions our net 2P reserves at 1 January 2020 stand at 62.3mmboe.

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 tie-backs 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

Mitch Flegg
Chief Executive Officer
22 April 2020

REVIEW OF OPERATIONS

Production

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

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^{th} 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^2 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
2P Reserves at 31 December 2018	**14.4**	**326.8**	**68.8**
2019 production	(1.3)	(49.1)	
Fuel in operation		(28.0)	
Revisions	1.7	35.0	
2P Reserves at 31 December 2019	**14.8**	**284.7**	**62.3**

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
UK					
P.090	9/9a BRUCE	Bruce Field Production	Operator	99%	Northern North Sea
P.090	9/9a Rest of Block excluding Bruce (REST)	Development	Operator	98%	Northern North Sea
P.198	3/29a (ALL)	Rhum Field Production	Operator	50%	Northern North Sea
P.209	9/8a BRUCE	Bruce Field Production	Operator	98%	Northern North Sea
P.209	9/8a KEITH	Keith Field Production	Operator	100%	Northern North Sea
P.209	9/8a Rest of Block excluding Bruce and Keith (REST)	Development	Operator	98%	Northern North Sea
P.276	9/9b BRUCE	Bruce Field Production	Operator	98%	Northern North Sea
P.276	9/9c (ALL)	Bruce Field Production	Operator	98%	Northern North Sea
P.276	9/9b Rest of Block excluding Bruce Unit (REST)	Development	Operator	98%	Northern North Sea
P.566	3/29b (ALL)	Rhum Field non-unitised production	Operator	100%	Northern North Sea
P.975	3/24b (ALL)	Rhum non-unitised production	Operator	100%	Northern North Sea
P.975	3/29d (ALL)	Rhum non-unitised production	Operator	100%	Northern North Sea
P101	23/21a Columbus	Columbus Development Area	Operator	50%	Central North Sea
P1314	23/16f	Columbus Development Area	Operator	50%	Central North Sea
P57	23/26a	Erskine Field - Production	Non-operator	18%	Central North Sea
P264	23/26b	Erskine Field - Production	Non-operator	18%	Central North Sea
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

Namibia					
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:

Investment Returns: Management seeks to invest in a portfolio of exploration, development and producing acreage delivering returns to shareholders through acquisitions of producing assets to which it can add further value and through the discovery and exploitation of commercial reserves. Delivery of this business model carries a number of key risks.

Risk	Mitigation
Stock market support may be eroded lowering investor appetite and obstructing fundraising	• Management regularly communicates its strategy to shareholders • Focus is placed on building a diverse and resilient asset portfolio capable of offering prospectivity throughout the business cycle
Each investment carries its own risk profile and no outcome can be certain	• Management aims to avoid over-exposure to individual assets, to identify the associated risks objectively and mitigate where practical

Operations: Operations may not go according to plan leading to damage, pollution, cost overruns or poor outcomes.

Risk	Mitigation
Production may be interrupted generating significant revenue loss whilst costs continue to be incurred	• The Company seeks to diversify its revenue streams • Management also determines and retains an appropriate level of working capital • Business interruption cover is

	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	• The Group aims to diversify its exposure to offtake routes where possible though all of its oil production currently uses the FPS system • The Group carries business interruption cover
The Company is reliant upon its IT systems to maintain operations and communications	• The Group employs specialist support and • Protection against external intrusion is incorporated within the system and tested regularly

Personnel: The Group relies upon a pool of experienced and motivated personnel to conduct its operations and execute successful investment strategies

Risks	**Mitigation**
Key personnel may be lost to other companies	• The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive • The Group seeks to build depth of experience in all key functions to ensure continuity
Personal safety may be at risk in demanding operating environments, typically offshore	• A culture of safety is encouraged throughout the organisation • Responsible personnel are designated at all appropriate levels • The Group maintains up-to-date emergency response resources and procedures

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	• An OFAC Licence has been obtained which has enabled continuing production from Rhum • Serica initiates the renewal process well in advance of the specified date
Volatile commodity prices mean that the Group cannot be certain of the future sales value of its products	• Planning and forecasting considers downside price scenarios • Oil and gas floor price hedging may be utilised where deemed cost effective

	• Price mitigation strategies may be employed at the point of major capital commitment

COVID-19: 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.	
Risk	**Mitigation**
The Company's personnel may be at risk from catching the virus	• The Company has instituted recommended safe practices and will maintain these as necessary • Serica has instituted a programme of working from home where feasible and temporarily closed its London and Aberdeen offices • The Company has reduced the number of staff working offshore to a safe minimum and encourages safe working and travelling practices
The spread of infection and associated counter measures may interrupt offshore operations	• The Company has reduced the number of staff working offshore to a safe minimum • Management encourages safe practices both offshore and travelling to and from the platform
The continued operation of Serica's fields may be adversely affected by interruptions to operations of fields and infrastructure downstream	• Serica carries a working capital reserve to cover such eventualities • Serica works with the regulatory bodies and infrastructure owners to identify and mitigate any such risks
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	• Serica uses commodity price hedging instruments where deemed cost effective • Investment strategies and expenditure programmes are evaluated under a range of price scenarios • Serica is reducing non-essential work and costs where practical

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

Key Performance Indicators ("KPIs")

The Company's main business is the acquisition, 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 and on SEDAR at www.sedar.com

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

On behalf of the Board
Mitch Flegg
Chief Executive Officer

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.

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

	Note	**2019 £000**	2018 £000 *restated
Continuing operations			
Sales revenue	5	250,533	35,708
Cost of sales	6	(164,748)	(15,690)
Gross profit		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)
Operating profit before net finance revenue, tax and transaction costs		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)
Profit before taxation		108,770	39,480
Taxation (charge)/credit for the year	12a)	(44,750)	12,005
Profit for the year		64,020	51,485
Earnings per ordinary share - EPS			
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

	Note	**Group** **2019** **£000**	2018 £000 *restated	**Company** **2019** **£000**	2018 £000 *restated
Non-current assets					
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
		329,056	376,904	105,643	105,256
Current assets					
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
		149,282	100,501	104,678	106,944
TOTAL ASSETS		478,338	477,405	210,321	212,200
Current liabilities					
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)	-	-
Non-current liabilities					
Financial liabilities	23	(110,108)	(164,488)	-	-
Provisions	24	(22,590)	(22,647)	-	-
Deferred tax liability	12d)	(75,831)	(31,081)	-	-
TOTAL LIABILITIES		(280,328)	(345,600)	(1,738)	(3,219)
NET ASSETS		198,010	131,805	208,583	208,981
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)
TOTAL EQUITY		198,010	131,805	208,583	208,981

*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

	Note	**Share capital £000** *restated	**Other reserve £000** *restated	**Accum'd deficit £000** *restated	**Total £000** *restated
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

	Share capital £000 *restated	**Merger reserve £000** *restated	**Other reserve £000** *restated	**Accum'd deficit £000** *restated	**Total £000** *restated
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

	Note	Group **2019** **£000**	2018 £000 *restated	Company **2019** **£000**	2018 £000 *restated
Operating activities:					
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
Net cash in/(out)flow from operations		136,877	(9,913)	(2,404)	(237)
Investing activities:					
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
Net cash flow from investing activities		(60,973)	17,990	(7,149)	5,767
Financing activities:					
(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)	-
Net cash flow from financing activities		(15,544)	12,815	1,042	208
Net increase/(decrease) in cash and cash equivalents	28	60,360	20,892	(8,511)	5,738
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

These are not the statutory accounts of the Company prepared in accordance with the Companies Act. 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).

<u>Deferred taxation</u>
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.

<u>Pre-licence Award Costs</u>

Costs incurred prior to the award of oil and gas licences, concessions and other exploration rights are expensed in the income statement.

<u>Exploration and Evaluation (E&E)</u>

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 de-recognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

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

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group's financial liabilities currently include interest bearing loans and borrowings, and trade and other payables. All financial liabilities are recognised initially at fair value. Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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 is is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

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

Finance Revenue

Finance revenue chiefly comprises interest income from cash deposits on the basis of the effective interest rate method and is disclosed separately on the face of the income statement.

Finance Costs

Finance costs of debt are allocated to periods over the term of the related debt using the effective interest method. Arrangement fees and issue costs are amortised and charged to the income statement as finance costs over the term of the debt.

Share-Based Payment Transactions

Employees (including 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.

Standard	***Effective year commencing on or after***
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.

GLOSSARY

bbl	barrel of 42 US gallons
bcf	billion standard cubic feet
boe	barrels of oil equivalent (barrels of oil, condensate and LPG plus the heating equivalent of gas converted into barrels at the appropriate rate)
BKR Assets	Bruce, Keith and Rhum fields
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