

**SERICA ENERGY PLC**

**2016**

**ANNUAL REPORT AND ACCOUNTS**

Company Number: 5450950

## **EXECUTIVE CHAIRMAN'S STATEMENT**

Dear Shareholder

I am pleased to report strong underlying performance from Serica's assets. Gross profit for 2016 of US\$6.6 million was achieved in spite of a six-month production shut-in earlier in the year to resolve pipeline issues and during a difficult period for oil and gas prices. This robust performance puts Serica in a very strong position within the sector. We ended the year with no borrowings or material commitments and with cash balances growing significantly. This performance has continued post the year-end.

This strong financial position enables us to look for new opportunities to add further value for shareholders and we are reviewing a number of such opportunities. These will be aimed at increasing and diversifying our production streams as well as balancing risk. We are also looking at utilising our tax loss position to the full and acquiring assets where we have some degree of control and believe we can add value through applying our expertise.

The Erskine field has performed well since production was restarted on 29 August 2016, averaging over 3,150 boe per day net to Serica to end March 2017. This was despite a ten-day shut-in in late February 2017 for maintenance and installation of a back-up export pump, and we have achieved production efficiencies averaging as much as 90% in recent months. Serica's operating and transportation costs have also been maintained at low levels below US\$14 per boe at current production rates. The combined effect of this performance has been a significant increase in cash balances, from US\$16.6 million at the year end, to US\$25.7 million by end March 2017, an increase of US\$9.1 million during the three month period. With administration costs for the year standing at US\$2.1 million, we continue to contain corporate overhead at minimal levels.

Production resumption has also taken place against a backdrop of improved commodity prices. Oil sales prices rose to an average US\$49 per barrel during the second half of 2016 whilst gas sales prices showed an even stronger rise, averaging over 40 pence per therm during the same period. A gas sales contract, under which Serica supplied approximately one quarter of its Erskine gas production at relatively low contract prices (approximately 30 pence per therm in the 2015/6 contract year), was terminated by Serica on 30 September 2016 coinciding with the upsurge in gas prices and allowing Serica the full benefit since then. Since the turn of the year oil prices have averaged US\$54 per barrel with UK gas prices averaging 48 pence per therm.

Serica's current operating and transportation cost of below US\$14 per boe reflects overall cost reductions, sustained production rates and also the impact of the lower sterling to dollar exchange rate. In addition to maintaining focus on cost control and improved production uptime, future costs per barrel can also be reduced through the introduction of new third party throughput to Lomond including production from the Columbus field whose progress is described in more detail in the Operations Review. With the sale by Shell of the Lomond platform to Chrysaor as part of a bigger package and Chrysaor committed to extending production life and maximising economic recovery, we believe that the incentives are now in place for all parties to find a solution to Columbus's export needs.

We are looking at various solutions for the development of Columbus, including the option of drilling into the field directly from the Lomond platform as well as the possibility of connecting a subsea well to an Arran-to-Shearwater pipeline, planned by the operator of the Arran field located to the north. The potential advantages of an extended-reach well from Lomond include no pipeline or associated subsea equipment, faster hook up time, easier well maintenance access and lower-cost abandonment. It would also reduce unit operating costs for the hub users overall, including Erskine, and help to attract further third party business and defer Lomond platform abandonment, thus increasing overall reserves recovery in the area. It is our objective to compare the costs and risks of the different solutions, as well as potential benefits such as these, in

order to reach a decision on Columbus development with our partners and infrastructure owners and finalise a field development plan during 2017.

We continue to seek ways to unlock the value in our exploration assets. We hold significant interests in acreage offering a balance of lower risk, mature basins and high risk, high reward frontier areas. We have mitigated drilling expenditure during the industry downturn through farm-outs and have constrained costs in our more frontier acreage but will be looking to expand this programme as our financial position strengthens.

Offshore Namibia and Ireland we have been granted two-year extensions with low cost exploration commitments and we are receiving expressions of interest from third parties for possible joint ventures as the exploration market slowly recovers buoyancy. In the UK we have a fully carried 15% interest in the Rowallan prospect in Central North Sea block 22/19c and, in East Irish Sea block 113/27c, we have a 20% carried interest in the Doyle prospect. Rowallan has a P50 potential resource estimate of 20 million boe net to Serica. It is one of three large, high pressure, high temperature prospects located on block 22/19c which lies close to our Columbus and Erskine interests. Plans to drill a well were delayed last year pending greater clarity on the outlook for oil and gas prices but partners have now agreed to place advance orders for long-lead items and proceed with site surveying this year in preparation for drilling of the Rowallan exploration well in 2018. A successful well would be material to Serica and highlight further potential on the block.

In the Doyle block we await the outcome of decisions from our operator Zennor Petroleum who have an 80% interest in the block following the withdrawal of Centrica, our previous operator, in 2016. Zennor have been seeking a partner to share in their 80% interest. In the absence of securing such a partner they may elect to relinquish the block. The licence authority, OGA, have granted an extension until 30 April 2017.

## **Outlook**

With our strong balance sheet, growing cash resources and opportunities to add value from our existing oil and gas resources, Serica is extremely well positioned to execute its growth strategy. We recognise our dependence upon Erskine as our only current source of income. Whilst this is generating material cash flows for the Company and we are expecting this to continue, we are looking to see how we can use our financial strength to diversify and enhance our cash generative capacity through the acquisition of additional production where we believe we can also add value. We see this as an essential part of our risk management strategy but a successful outcome would also increase the scale and spread of the Company's operations and create greater visibility, financial capacity and liquidity for the Company to the benefit of shareholders.

In view of the strategic benefits, synergies and tax efficiencies our immediate focus remains on the UK North Sea where there are opportunities on offer as the oil majors restructure their asset portfolios and make way for smaller, more cost efficient operators. The market is, as ever, competitive, particularly from new sources of private equity, and the vibrancy of the market has been demonstrated by a number of recently announced transactions. We are cautious in our approach and remain fully cognisant of the need to high grade the number of opportunities available but believe that such a strategy will also help us in bringing forward the clear potential of our existing portfolio.

In summary, we are extremely positive on the opportunities open to Serica and on our ability to execute them. We are looking forward to an interesting and potentially exciting year ahead.

Antony Craven Walker  
Executive Chairman  
5 April 2017

## **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 2016.

References to the "Company" include Serica and its subsidiaries where relevant. All figures are reported in US dollars ("US\$") unless otherwise stated. The Company is subject to the regulatory requirements of the AIM market ("AIM") 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 licence interests in the UK Continental Shelf and exploration interests in Ireland, Morocco and Namibia.

## REVIEW OF OPERATIONS

### Production

Central North Sea: Erskine Field – Blocks 23/26a (Area B) and 23/26b (Area B), Serica 18%

All of Serica's production comes from its 18% interest in Erskine, a gas and condensate producing field located in the UK Central North Sea and acquired from BP in June 2015. Serica's co-venturers are Chevron 50% (operator) and Shell 32%. Erskine fluids are processed and exported via the Lomond platform, which is 100% owned and operated by Shell, who acquired Lomond and a share in Erskine through the acquisition of BG in February 2016. Serica's condensate allocation is delivered and sold as Forties crude oil at the Cruden Bay terminal and gas is sold at the CATS terminal on Teeside. Shell has recently announced a sale of its interests in Erskine and Lomond, subject to certain consents, to Chrysaor Holdings Limited, a private equity-backed oil and gas company.

An updated independent audit of the Erskine field confirmed Serica's share of estimated proven plus probable reserves at 3.8 million boe as of 1 January 2017, in line with previous estimates.

Following a strong January and February 2016 when production averaged over 3,200 boe per day net to Serica, the field was subject to an extended shut-in. On 27 February 2016 a cleaning device known as a pig became stuck in the condensate export pipeline that runs between Lomond and the Everest platform, causing a blockage. The blockage was caused by the pig encountering a build-up of wax in the line that had been deposited over time by the export fluids. The operation to clear the line took ten weeks due to the engineering requirements to gain access to the blockage with wax solvent and then to allow for optimal time to soak and dissolve the wax. Rather than restarting in mid-May, the planned June shut-in for maintenance work on the Lomond platform was brought forward with the eventual full restart of Erskine occurring on 29 August 2016.

Erskine field production since the 29 August restart has delivered strong and consistent volumes, averaging approximately 3,150 boe per day net to Serica to year-end despite a series of capacity restrictions on the Forties Pipeline, through which Erskine liquids are exported, and some minor system trips on the Lomond offtake facilities. This performance has continued into 2017, averaging over 3,200 boe per day net to Serica over the first three months despite a ten-day shut-in for further treatment of wax build-up in the condensate export line and installation of a back-up pump. The strong performance of the Erskine wells over the last 21 months, when unconstrained by offtake restrictions, fully supports current estimates of ultimate reserves recovery and may leave scope for further upside.

Improved planning and communication between the Erskine and Lomond facility operators, supported by Serica, has resulted in reducing production interruptions. This has been achieved by identifying system vulnerabilities and planning more efficient maintenance programmes. Production efficiency exceeded 80% from the end of August 2016 to the end of the year and has averaged around 90% in recent months, demonstrating continued performance improvement.

Having assessed the lessons from the blockage of the Lomond to Everest condensate export pipeline last year, the Lomond facilities operator is implementing a number of changes to reduce the chance of a reoccurrence. These include improved pipeline monitoring, more regular pigging programmes and intermittent shut-ins for the injection of wax solvents when required.

Ongoing reductions to the Erskine/Lomond cost-base have combined with increased throughput volumes to lower Erskine operating costs per boe. Though Serica's average operating cost for 2016 was US\$23 per boe including transportation costs, this falls

below US\$14 per boe after excluding the effects of the export line blockage, illustrating that maintaining production volumes is as important as cutting costs in the drive to minimise costs per barrel.

This also drives the strategy to bring other fields, such as Columbus, through the Lomond hub as soon as practicable to the benefit of all hub owners. Recent analysis by Oil & Gas UK suggests that average operating costs of US\$15 per barrel are now being achieved through the UK North Sea as a whole, setting a benchmark for all operators which should sustain profitable North Sea operations even during future periods of low commodity prices.

No significant capital investment is planned for Erskine in 2017.

## **Development**

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

The Columbus gas condensate field is located in close proximity to the Lomond platform, which is the offtake route for production from Serica's Erskine producing interest. Serica as Columbus field operator is working towards a full Field Development Plan by the end of 2017 with a view to commencing development work in 2018. First gas is targeted for late 2019 or 2020.

The Columbus field has been fully appraised with four wells and will be developed with a single production well. Serica is progressing two potential development options for Columbus. The first option is an extended-reach development well drilled into Columbus from the Lomond platform, located 5 kilometres away. This technology has been extensively used in the North Sea, especially in Norway. Alternatively a well could be drilled as a subsea completion and tied into a proposed third-party pipeline to the Shearwater platform, with either option delivering similar levels of reserves recovery.

The Lomond platform has spare well slots and a jack-up rig can be utilised to drill a well into Columbus from the platform. The advantage of this route is that there is no pipeline or associated subsea equipment required and consequently time to hook up the well and bring it on production should be much shorter than would be required for a subsea well. A platform well also has the advantages of easy access for future well maintenance interventions and lower-cost abandonment. Columbus production into the Lomond platform is likely to benefit the Erskine and Lomond fields by reducing unit operating costs whilst improving the product mix and could result in deferring the date of platform abandonment thus increasing reserves recovery. Deferral of Lomond platform abandonment would also increase its attraction for other potential third party business to mutual benefit.

In parallel, Serica is working with the Arran field operator to appraise the option of tying Columbus into a proposed new pipeline into the Shearwater platform. This would be a longer offtake route and the Columbus development well would be drilled as a subsea completion. The advantages of this option are shorter drilling time and the potential for lower unit operating costs. However, there would be an overall increase in development costs and there would be greater complexity involved in coordinating with a separate field development, which is expected to result in a longer development timeline.

Whichever option is selected, Serica plans to take full advantage of current market conditions and latest drilling and subsea technology to ensure a low cost, efficient and reliable plan for development. Serica is undertaking studies on both options in order to make an informed decision, based on risks and economics, during the course of 2017, following which a field development plan will be submitted to the Oil and Gas Authority.

## **Exploration**

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

Detailed well planning for the Rowallan prospect is underway, with spending on a site survey and long-lead items approved by partners for 2017. A vessel will be deployed in the summer to perform a site survey and drill geotechnical boreholes in preparation for drilling in 2018. The prospect is located within Serica's core Central North Sea area, close to Erskine and Columbus. Serica is fully carried on all costs for a well on this high pressure high temperature prospect. There are similarities to the nearby Culzean field, with the well targeting the same age Jurassic/Triassic reservoir sands and a fault-and-dip closed trap.

A discovery could deliver 20 million boe net to Serica (P50 resource estimate), with further upside in the form of two similar prospects, Dundonald and Sundrum, also identified on the block.

### East Irish Sea: Doyle Prospect - Blocks 113/22a, 113/26b and 113/27c, Serica 20%

The Doyle gas prospect lies in close proximity, and is analogous, to the producing Rhyl field. Serica is carried for costs on an exploration well on the prospect up to a gross cap of £11 million. The operator has been seeking a partner to share in its drilling costs following the withdrawal of Centrica, our previous operator, in 2016. In the absence of securing such a partner the block may be relinquished. The licence authority, OGA, have granted an extension until 30 April 2017.

## **Ireland**

Offshore Ireland is currently experiencing renewed interest including the entry of a number of oil and gas majors. This is demonstrated through significantly increased licence applications, farm-ins and seismic data acquisition programmes expected to lead to renewed drilling in the region.

### Rockall Basin: Frontier Exploration Licences 1/09 and 4/13, Serica 100%

Serica has secured a two-year extension on licence 4/13 in order to bring in a partner to join in drilling an exploration well. The well is designed to test two prospects, the shallower prospect being a Cretaceous fan defined by seismic anomaly and analogous to prospects identified in the Porcupine basin. This overlies a deeper target, a structural fault block of Permian/Triassic age, analogous to the nearby Dooish discovery. Serica estimates P50 resources for these stacked prospects to be in the order of 4tcf of gas and 250 million barrels of condensate, which would result in a major development.

Licence 1/09 contains a large structural prospect, also a Dooish analogue, and Serica is seeking a partner to drill a well to prove the concept, ideally as part of the same drilling programme as 4/13.

In 2017, further work is planned on the licences to investigate the potential for productive fractured basement. The recent well test on the Lancaster discovery by Hurricane in the West of Shetlands area has proved the production capability of fractured basement.

### Slyne Basin: Frontier Exploration Licence 01/06, Serica 100%

Serica has increased its equity from 50% to 100% following the withdrawal of DEA from the licence and has secured a two-year extension to further explore the potential first identified through the Bandon oil discovery drilled in 2009. In that time, Serica plans to further de-risk the Boyne prospect, down-dip of the Bandon discovery, by detailed

analysis to better predict the oil type likely to be found in the deeper Jurassic and Triassic sandstone formations.

Serica is seeking to identify a farm-in partner to take advantage of low drilling and development costs and, in the event of a commercial discovery, to follow with a swift development to get to first oil/gas. The P50 resource estimate of 115 million barrels of oil is expected to result in an attractive economic development at current oil prices.

### ***Namibia***

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

Serica has progressed to the first renewal period of the licence, running until the end of 2018. This licence period does not include a commitment to drill a well. However, the prospectivity, identified by a major seismic programme operated by Serica, is such that Serica would wish to drill a well within this time-frame, subject to the introduction of a new partner. The excellent 3D seismic data has identified giant carbonate prospects as well as large, more conventional Cretaceous fan prospects supported by seismic anomalies. Serica plans to work on identifying more prospects supported by the latest seismic visualisation techniques as well as seeking a partner to drill the main carbonate prospect (gross P90 to P10 range of 138 million to 2.8 billion barrels of oil).

### ***Morocco***

Sidi Moussa Licence: Serica 5%

The Sidi Moussa licence has been extended until August 2017 to allow the operator, Genel, time to consider further exploration activity. Serica has elected not to participate in any further drilling but has an option to buy back in should a well be drilled.

### ***Norway***

The operator of the Vette field, in which Serica held an economic interest dependent upon the level of oil prices prevailing at first production, determined that the potential development was uncommercial at current oil and gas prices and the licence has been relinquished.

## LICENCE HOLDINGS

The following table summarises the Group's licences as at 31 December 2016.

<b>Block(s)</b>	<b>Description</b>	<b>Role</b>	<b>% at 31/12/16</b>	<b>Location</b>
<b>UK</b>				
22/19c	Exploration	Non-operator	15%	Central North Sea
23/16f, 23/21a (part)	Columbus Field - Development planned	Operator	50%	Central North Sea
23/26a, 23/26b	Erskine Field - Production	Non-operator	18%	Central North Sea
113/26b	Exploration	Non-operator	20%	East Irish Sea
113/27c	Exploration	Non-operator	20%	East Irish Sea
113/22a	Exploration	Non-operator	20%	East Irish Sea
<b>Ireland</b>				
27/4 (part)	Exploration	Operator (1)	100%	Slyne Basin
27/5 (part)	Exploration	Operator (1)	100%	Slyne Basin
27/9 (part)	Exploration	Operator (1)	100%	Slyne Basin
5/17	Exploration	Operator	100%	Rockall Basin
5/18	Exploration	Operator	100%	Rockall Basin
5/22	Exploration	Operator	100%	Rockall Basin
5/23	Exploration	Operator	100%	Rockall Basin
5/27	Exploration	Operator	100%	Rockall Basin
5/28	Exploration	Operator	100%	Rockall Basin
11/10	Exploration	Operator	100%	Rockall Basin
11/15	Exploration	Operator	100%	Rockall Basin
12/1 (part)	Exploration	Operator	100%	Rockall Basin
12/6	Exploration	Operator	100%	Rockall Basin
12/11 (part)	Exploration	Operator	100%	Rockall Basin
<b>Namibia</b>				
2512A	Exploration	Operator	85%	Luderitz Basin
2513A	Exploration	Operator	85%	Luderitz Basin
2513B	Exploration	Operator	85%	Luderitz Basin
2612A (part)	Exploration	Operator	85%	Luderitz Basin
<b>Morocco</b>				
Sidi Moussa	Exploration	Non-operator	5%	Tarfaya-Ifni Basin

- (1) Interest increased from 50% to 100% effective 1 December 2016 following confirmation of licence extension in March 2017.

## GLOSSARY

bbbl	barrel of 42 US gallons
bcf	billion standard cubic feet
boe	barrels of oil equivalent (barrels of oil, condensate and LPG plus the heating equivalent of gas converted into barrels at a rate of 6,000 standard cubic feet per barrel)
CPR	Competent Persons Report
FEED	Front End Engineering Design
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
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
Proved Reserves	Proved reserves are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves
Probable Reserves	Probable reserves are those additional Reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves
Possible Reserves	Possible reserves are those additional Reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved + probable + possible reserves
Reserves	Estimates of discovered recoverable commercial hydrocarbon reserves calculated in accordance with the Canadian National Instrument 51-101
Contingent Resources	Estimates of discovered recoverable hydrocarbon resources for which commercial production is not yet assured, calculated in accordance with the Canadian National Instrument 51-101
Prospective Resources	Estimates of the potential recoverable hydrocarbon resources attributable to undrilled prospects, calculated in accordance with the Canadian National Instrument 51-101
TAC	Technical Assistance Contract
tcf	trillion standard cubic feet

## **FINANCIAL REVIEW**

The completion of the Erskine acquisition on 4 June 2015 brought significant oil and gas revenue streams, accelerating the utilisation of Serica's past UK tax losses. The Company accounts for its share of field revenues and costs post acquisition, hence the comparative figures for 2015 include Erskine revenues and costs only for the period from 4 June to 31 December 2015.

Group profit after tax of US\$10.8 million for 2016 compares to a profit after tax of US\$6.5 million for 2015 with the six-month Erskine field shut-in, running to late August 2016, significantly restricting 2016 sales revenues whilst operating costs continued to be incurred. Following the restart, rising commodity prices, allied to strong well performance, improved off-take facility uptime and lower opex per barrel costs, delivered a particularly strong Q4 2016.

### **Erskine asset overview**

Although the impact of the extended Erskine field shut-in on 2016 results was substantial, field production performance during January and February and then from the 29 August restart to year-end demonstrated the true capability of the field with production net to Serica averaging over 3,150 boepd in the latter period, generating good cash flow throughout Q4 2016 as both oil and gas prices rose. All of the oil is sold at monthly average spot prices and from 1 October 2016 all of the gas is sold in the market at monthly average spot prices. NGL's derived from gas production are also sold at monthly average spot prices for the respective products.

Field production has continued at similar levels in 2017 to date, averaging over 3,200 boe per day net to Serica in Q1 2017. The Brent oil benchmark has averaged over US\$54 per barrel in Q1 2017 (2016 average of US\$45 per barrel) whilst UK gas prices rose to over 60 pence per therm in January and have averaged over 48 pence across the Q1 2017 period (2016 average of 35 pence per therm).

Serica's operating costs including transportation and processing were US\$23 per boe during 2016 reflecting the six-month shut-in, but are now averaging well below these levels and, assuming steady ongoing production, we expect operating costs to be below US\$14 per boe in 2017.

Strong net income from Erskine since the re-start of production in late August has allowed Serica to continue to rebuild cash resources. As at 31 March 2017, cash balances had increased from the year-end balance of US\$16.6 million to US\$25.7 million, before receipt of March sales which are expected to add approximately US\$3.5 million net of operating costs.

Serica's significant tax losses brought forward from prior periods have been applied to fully shelter Erskine 2016 net income from tax payments and are expected to be sufficient to cover future income from the field leaving a surplus available to cover new United Kingdom Continental Shelf sources of income.

## **Results from operations**

### Income statement – continuing operations

Serica generated a gross profit of US\$6.6 million in 2016 from its Erskine field operations after the effect of the six-month field shut-in. The reported 2015 comparative gross profit of US\$16.1 million reflected performance from the date of completion, 4 June 2015, to the year end, 31 December 2015. Serica's 18% field interest generated net combined oil and gas production of 597,000 boe in 2016 compared to 606,000 boe for the reported 2015 period.

#### *Sales revenues*

The Company currently generates all its sales revenue from the Erskine field in the UK North Sea. Revenue is earned from oil, gas and NGL product streams. Serica's condensate allocation is sold as Forties crude oil.

Net Erskine field gas production averaged 5.0 mmscf per day during 2016, whilst condensate production averaged 800 barrels per day reflecting the six-month shut-in. In the 2015 seven month comparative period, net Erskine field gas production averaged 8.6 mmscf per day together with average condensate production of 1,462 barrels per day.

Sales revenues in 2016 from lifted barrels of oil were US\$11.1 million (2015: US\$10.4 million) at an average realised price of US\$42.10/bbl (2015: US\$44.50/bbl). Associated NGL products earned additional revenue of US\$0.3 million (2015: US\$0.3 million).

Sales revenues in 2016 also include US\$0.5 million (2015: US\$3.4 million) reflecting the movement from a combined liquids overlift position at 31 December 2015 to an underlift position at 31 December 2016.

The 2016 gas production was sold at prices averaging US\$4.6 per mscf (2015: US\$5.1 per mscf) and generated US\$8.4 million (2015: US\$9.1 million) of revenue net to Serica. A gas sales contract, under which Serica supplied approximately one quarter of its Erskine gas production at relatively low contract prices (approximately 30 pence per therm in the 2015/6 contract year), terminated on 30 September 2016.

Three NGL products (Propane, Butane and Naphtha) are derived from associated gas production and contributed revenue of US\$1.2 million (2015: US\$0.8 million) net to Serica.

#### *Cost of sales and depletion charges*

Cost of sales is driven by production from the Erskine field and comprises field operating costs and a depletion charge against the asset's net book amount.

The overall 2016 charge of US\$14.9 million (2015: US\$7.9 million) comprised direct field operating costs of US\$13.6 million (2015: US\$6.6 million) and non-cash depletion of US\$1.3 million (2015: US\$1.3 million). The most significant elements of the field operating costs are as follows: Erskine's contribution to the running costs of the Lomond facilities, standalone Erskine field operating costs, other transportation costs for use of the FPS and CATS pipelines, and charges for any necessary surface or sub-surface maintenance work. Significant operational expenditure continues during periods of field shut-in when no revenue is earned.

The US\$7.0 million increase in field operating costs from 2015 to 2016 is largely due to the full year 2016 reporting period compared to seven months of post-acquisition Erskine operations in 2015. The 2016 expense also includes an agreed level of contribution from the Erskine partners to the exceptional costs incurred by the Lomond operator to resolve the Lomond/Everest pipeline blockage. Operating costs are billed in

GB£ and, following the decline in the strength of GB£ against the US\$ in June 2016, the reported US\$ equivalent figures have reduced during 2H 2016 compared to US\$ oil revenue streams.

Depletion charges principally represent the costs of Erskine acquisition spread over the estimated remaining commercial life of the field on a unit of production basis.

#### *Other expenses and income*

The Company generated a profit before tax from continuing operations of US\$3.3 million for 2016 compared to a profit before tax of US\$4.3 million for 2015.

Other expenditure of US\$0.1 million in 2016 represented hedging premium net of gains.

Pre-licence expenditure of US\$0.2 million for 2016 has increased from the 2015 charge of US\$0.1 million due to an increased level of activity on new business in the second half of the year as the Company has increased its focus on adding to its existing UK North Sea asset portfolio. Pre-licence costs included direct costs and allocated general administrative costs incurred on oil and gas activities prior to the award of licences, concessions or exploration rights.

The Exploration and Evaluation ('E&E') asset impairment charge of US\$0.1 million in 2016 comprised minor asset write-offs from licences in Morocco and the UK. The aggregate 2015 impairment charge of US\$8.2 million comprised US\$13.1 million of asset write-offs from relinquished licences and historic wells not considered to hold remaining economic potential, offset by a US\$4.9 million pre-tax impairment reversal recorded against the Columbus field asset.

Administrative expenses of US\$2.1 million for 2016 decreased from US\$2.7 million in 2015 as the Company's cost-cutting efforts continued and the largely GB£-based overheads benefitted from the weaker average GB£ exchange rate compared to US\$.

#### *Foreign exchange*

Serica retains certain non-US\$ cash holdings and other financial instruments relating to its operations. The US\$ value of these may fluctuate from time to time causing reported foreign exchange gains and losses. Serica maintains a broad strategy of matching the currency of funds held on deposit to the expected expenditures in those currencies. Management believes that this mitigates most of any actual potential currency risk from financial instruments.

Foreign exchange charges of US\$0.6 million for 2016 (2015: US\$0.4 million) largely reflect a reduction in the reported US\$ equivalent of GB£ cash balances caused by the weakening of GB£ against the US\$ after the EU referendum result. Unrealised losses on the revaluation of GB£ cash balances have been partially offset by realised gains on settlement of significant GB£ creditors.

Finance costs of US\$0.2 million were incurred in 2016 (2015: US\$0.2 million) largely comprising the interest accruing on the liability payable to BP relating to the Erskine acquisition.

The deferred taxation credit of US\$7.5 million (2015: US\$2.4 million) arose from the recognition of a corresponding deferred tax asset on the Erskine field interest.

#### Income statement - discontinued operations

Following the cessation of production and the decommissioning of the Kambuna field facilities in Indonesia in the second half of 2013, the financial results of the Kambuna

field business segment are disclosed within 'discontinued operations' in the financial statements and separate from the results of the retained core business segments.

This discontinued operation loss of US\$0.3 million in 2015 comprised a final assessment for asset write-offs and minor operator expense as residual matters were closed out with one final charge of US\$8,000 recorded in 2016.

## **Balance Sheet**

During 2016, the total carrying value of investments in E&E assets increased by US\$1.4 million from US\$51.8 million to US\$53.2 million. This increase consisted of additions in the year on the following assets. In Africa, US\$0.4 million was incurred in respect of the Luderitz basin licence interests in Namibia. In the UK, US\$0.4 million was incurred on the Columbus development and other exploration licences. In Ireland, US\$0.4 million was incurred on exploration work on the Rockall licences and US\$0.2 million on the Slyne interest.

The property, plant and equipment balance of US\$9.1 million as at 31 December 2016 comprises the net book amount of the Erskine asset acquisition costs capitalised on completion of the transaction net of depletion charges to-date.

Trade and other receivables at 31 December 2016 totalled US\$6.8 million, an increase of US\$2.6 million from the 2015 balance of US\$4.2 million. The 2016 balance includes US\$4.3 million (2015: US\$3.2 million) from December oil, gas and NGL sales earned from the Erskine field, and a US\$0.4 million non-cash underlift asset reflecting the combined year end liquids underlift position (2015: US\$0.2 million overlift classified as a liability within trade and other payables).

Cash and cash equivalents decreased from US\$21.6 million to US\$16.6 million during the year. Operating cash inflows from net Erskine field sales were adversely impacted by the six-month field shut-in during which operating expenditure continued to be incurred. The Company also paid the second US\$2.8 million tranche of Erskine consideration to BP and has significantly reduced other Erskine field liabilities in the year. Other cash outflows were incurred on E&E assets across the portfolio in the UK, Ireland and Namibia, ongoing administrative costs and corporate activity.

Short-term trade and other payables totalled US\$5.9 million at 31 December 2016 (2015: US\$9.6 million). This balance comprises capital and operational liabilities for the Erskine interest, which have been significantly reduced, the US\$2.9 million (including accrued interest) third tranche of Erskine consideration payable to BP on 1 July 2017, and other creditors and accruals for E&E asset, corporate and administrative expenditure.

Provisions of US\$2.2 million relate to an estimate for certain contingent payments related to savings in field operating costs that may be made to BP under the terms of the Erskine acquisition.

Long-term liabilities of US\$2.9 million as at 31 December 2016 comprise the final tranche of Erskine consideration payable to BP on 1 July 2018.

Serica's share of estimated decommissioning costs relating to its 18% Erskine field interest will be met by BP up to a level of GB£31.3 million, adjusted for inflation, with Serica being responsible for any costs beyond that. No provision for decommissioning liabilities for the Erskine field is recorded at 31 December 2016 as the Company's current estimate for such costs is under the level to be funded by BP.

## **Cash balances and future commitments**

### Current cash position, capital expenditure commitments and other obligations

At 31 December 2016, the Group held cash and cash equivalents of US\$16.6 million growing to US\$25.7 million by 31 March 2017.

At 31 December 2016, the Group held put options covering Q1 2017 daily volumes of 750 barrels of oil and 40,000 therms per day (4,000 mscf/day) of gas at average floor prices of US\$35 per barrel and 38 pence per therm.

In January 2017, the Group acquired gas put options covering Q2 and Q3 2017, and oil put options covering Q2 2017. Gas is covered for 40,000 therms a day at a 40p per therm floor throughout Q2 2017, and 38p per therm for an average of 31,000 therms a day for Q3. Q2 2017 oil cover is in place for 750 barrels a day at a US\$50 per barrel floor.

### Erskine field commitments

Net revenues from the Erskine field are expected to cover ongoing field expenditures as well as the two remaining tranches of US\$2.8 million (before interest) cash consideration payable to BP on 1 July 2017 and 2018 respectively.

Management believe there are sufficient resources to meet the current committed programme for 2017 but remains conscious that a single field income stream exposes it to operational and infrastructure risks and the consequent need for adequate working capital to cover associated fluctuations in revenue. The field has a history of intermittent production performance prior to the remedial work undertaken and operational expenditure continues during periods of field shut-down when no revenue is earned.

### Non-Erskine commitments

The Group has no significant exploration commitments.

Progress towards the Columbus development continues with a target to compile a Field Development Plan before the end of the year. Financing plans for the project will be worked in conjunction with the FDP submission.

## **Other**

### Asset values and Impairment

At 31 December 2016, Serica's market capitalisation stood at US\$47.2 million (£38.2 million), based upon a share price of £0.145, which was exceeded by the net asset value at that date of US\$85.1 million. By 4 April 2017 the Company's market capitalisation had increased to US\$87.8 million (£70.5 million). Management has conducted a thorough review of the carrying value of the Group's assets and determined that no significant write-downs were 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 in all operations, to carry insurance where available and cost effective, and to retain adequate working capital.

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

<b>Investment Returns:</b> Management seeks to raise funds and then to generate shareholder returns through investment in a portfolio of exploration, development and producing acreage leading to the discovery and exploitation of commercial reserves. Delivery of this business model carries a number of key risks.	
<b>Risk</b>	<b>Mitigation</b>
Market support may be eroded obstructing fundraising and lowering the share price	<ul style="list-style-type: none"> <li>• Management regularly communicates its strategy to shareholders</li> <li>• Focus is placed on building an asset portfolio capable of delivering regular news flow and offering continuing prospectivity</li> </ul>
Management's decisions on capital allocation may not deliver the expected successful outcomes	<ul style="list-style-type: none"> <li>• Rigorous analysis is conducted of all investment proposals</li> <li>• Operations are spread over a range of areas and risk profiles</li> </ul>
Each asset carries its own risk profile and no outcome can be certain	<ul style="list-style-type: none"> <li>• Management aims to avoid over-exposure to individual assets and to identify the associated risks objectively</li> </ul>

<b>Operations:</b> Operations may not go according to plan leading to damage, pollution, cost overruns or poor outcomes.	
<b>Risk</b>	<b>Mitigation</b>
The Group's income is currently derived from a single producing field	<ul style="list-style-type: none"> <li>• Efforts are underway to add to producing assets</li> <li>• Management places a priority on building and retaining sufficient working capital</li> </ul>
Individual wells may not deliver recoverable oil and gas reserves	<ul style="list-style-type: none"> <li>• Thorough pre-drill evaluations are conducted to identify the risk/reward balance</li> <li>• Exposure is selectively mitigated through farm-out</li> </ul>
Wells may blow out or equipment may fail causing environmental damage and delays	<ul style="list-style-type: none"> <li>• The Group retains fully trained and experienced personnel</li> <li>• The planning process involves risk identification and establishment of mitigation measures</li> <li>• Emphasis is placed on engaging experienced contractors</li> <li>• Appropriate insurances are retained</li> </ul>
Operations may take far longer or cost more than expected	<ul style="list-style-type: none"> <li>• Management applies rigorous budget control</li> <li>• Adequate working capital is retained to cover reasonable eventualities</li> </ul>
Production may be interrupted generating significant revenue loss	<ul style="list-style-type: none"> <li>• Business interruption cover will be considered when appropriate</li> </ul>
Offtake routes may depend upon a series of facilities and pipelines requiring a balance of throughput from a number of different fields	<ul style="list-style-type: none"> <li>• The Group aims to diversify its sources of income when suitable opportunities can be identified</li> </ul>
Resource estimates may be misleading and	<ul style="list-style-type: none"> <li>• The Group deploys qualified</li> </ul>

exceed actual reserves recovered	<p>personnel</p> <ul style="list-style-type: none"> <li>• Regular third-party reports are commissioned</li> <li>• A prudent range of possible outcomes are considered within the planning process</li> </ul>
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**Personnel:** The Group relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies

Risks	Mitigation
Key personnel may be lost to other companies	<ul style="list-style-type: none"> <li>• The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive</li> <li>• The Group seeks to build depth of experience in all key functions to ensure continuity</li> </ul>
Personal safety may be at risk in demanding operating environments, typically offshore	<ul style="list-style-type: none"> <li>• A culture of safety is encouraged throughout the organisation</li> <li>• Responsible personnel are designated at all appropriate levels</li> <li>• The Group maintains up-to-date emergency response resources and procedures</li> <li>• Insurance cover is carried in accordance with industry best practice</li> </ul>
Staff and representatives may find themselves exposed to bribery and corrupt practices	<ul style="list-style-type: none"> <li>• Group policies and procedures are communicated to personnel regularly</li> <li>• Management reviews all significant contracts and relationships with agents and governments</li> </ul>

**Commercial environment:** World and regional markets continue to be volatile with fluctuations and infrastructure access issues that might hinder the Group's business success

Risk	Mitigation
Volatile commodity prices mean that the Group cannot be certain of the future sales value of its products	<ul style="list-style-type: none"> <li>• Budget planning considers a range of commodity prices</li> <li>• Price mitigation strategies may be employed at the point of major capital commitment</li> <li>• Gas may be sold under long-term contracts reducing exposure to short term fluctuations</li> <li>• Oil and gas price hedging contracts may be utilised where viable</li> </ul>
The Group may not be able to get access, at reasonable cost, to infrastructure and product markets when required	<ul style="list-style-type: none"> <li>• A range of different off-take options are pursued wherever possible</li> </ul>
Credit to support field development programmes may not be available at reasonable cost	<ul style="list-style-type: none"> <li>• Serica seeks to build and maintain strong banking relationships and initiates funding discussions at as early a stage as practicable</li> </ul>
Fiscal regimes may vary, increasing effective tax rates and reducing the expected value of reserves	<ul style="list-style-type: none"> <li>• Operations are currently spread over a range of different fiscal regimes in Western Europe and Africa</li> </ul>

	<ul style="list-style-type: none"> <li>• Before committing to a significant investment the likelihood of fiscal term changes is considered when evaluating the risk/reward balance</li> </ul>
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In addition to the principal risks and uncertainties described herein, the Group is subject to a number of other risk factors generally, a description of which is set out in our latest annual information form available on [www.sedar.com](http://www.sedar.com).

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

The Company’s main business is the acquisition of interests in prospective exploration acreage, the discovery of hydrocarbons in commercial quantities and the crystallisation of value whether through production or disposal of reserves. The Company tracks its non-financial performance through the accumulation of licence interests in proven and prospective hydrocarbon producing regions, the level of success in encountering hydrocarbons and the development of production facilities. In parallel, the Company tracks its financial performance through management of expenditures within resources available, the cost-effective exploitation of reserves and the crystallisation of value at the optimum point. A review of the Company’s progress against these KPIs is covered in the operations and financial review within this Strategic Report.

### **Additional Information**

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

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

On behalf of the Board  
 Antony Craven Walker  
 Executive Chairman

5 April 2017

### **Forward Looking Statements**

This disclosure contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond Serica Energy plc’s control, including: the impact of general economic conditions where Serica Energy plc operates, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Serica Energy plc’s actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, that Serica Energy plc will derive therefrom.

## DIRECTORS' REPORT

The Directors of the Company present their report and the Group financial statements of Serica Energy plc ("Serica" or the "Company") for the year ended 31 December 2016.

### Principal Activities

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

### Business Review and Future Developments

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

### Results and Dividends

The profit for the year was US\$10,838,000 (2015: US\$6,489,000).

The Directors do not recommend the payment of a dividend (2015: US\$nil).

### Financial Instruments

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

### Events Since Balance Sheet Date

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

### Directors and their Interests

The following Directors have held office in the Company since 1 January 2016:

Antony Craven Walker  
Neil Pike  
Ian Vann  
Jeffrey Harris

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

	<b>Class of share</b>	<b>Interest at end of year</b>	<b>Interest at start of year</b>
Antony Craven Walker (1)	Ordinary	7,357,694	7,829,916
Neil Pike (2)	Ordinary	505,000	505,000
Ian Vann	Ordinary	267,935	267,935
Jeffrey Harris (3)	Ordinary	46,090,576	46,090,576

1. 6,448,810 ordinary shares were held by Antony Craven Walker and 908,884 by Rathbones (pension funds). As a result of the death in 2015 of his wife, Christine Elizabeth Walker, the beneficial interest in her pension plan was ceded in 2016 by the Trustees of the pension plan to their son in accordance with his late wife's wishes. Accordingly, Antony Craven Walker no longer has an interest in 472,222 ordinary shares of US\$0.10 each in the Company which were previously recorded as being held in the pension plan of his wife and aggregated with his own holdings.

2. 190,000 ordinary shares were held by Romaine Pike and 185,000 ordinary shares by Luska Limited as at 31 December 2015. In January 2016, Neil Pike notified the Company that he had transferred 130,000 ordinary shares in the Company to his ISA, and his wife also transferred 190,000 ordinary shares in the Company to her ISA. Following these transfers, Mr Pike's beneficial interest in the Company (which includes that of his wife) remains unchanged at 505,000 ordinary shares.

3. 46,090,576 ordinary shares are held by GRG UK Oil LLC who are represented on the Board by Jeffrey Harris.

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

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

The following Director is also interested in share options held by them pursuant to the terms of the Serica Energy plc Share Option Plan 2005 ("Serica 2005 Option Plan") (a summary of which is set out in note 27) as follows:

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

All options awarded since December 2009 have a three-year vesting period. Under the Serica 2005 Option Plan, when awarding options to directors, the Remuneration Committee is required to set Performance Conditions, in addition to the vesting provisions, before vesting can take place. The options granted in July 2015 were all awarded at prices higher than the market price at the time of the grant to establish firm performance targets.

### **Auditor**

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

### **Disclosure of information to auditors**

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

On behalf of the Board

Antony Craven Walker  
Director  
5 April 2017

## **CORPORATE GOVERNANCE STATEMENT**

The Board of Directors fully endorses the importance of sound corporate governance. Serica is incorporated in the United Kingdom. During 2014 its shares were traded on both the AIM market of the London Stock Exchange ("AIM") and on the Toronto Stock Exchange in Canada ("TSX"). On 17 March 2015, the Company announced that it had applied for voluntary delisting of its ordinary shares from the TSX. This was because the directors believed that the minimal trading activity of Serica's shares on the TSX no longer justified the expenses and administrative efforts associated with maintaining its dual listing, with Serica's AIM listing providing its shareholders with sufficient liquidity. The Company's shares were formally delisted from the TSX at the close of trading on 31 March 2015. After this date Serica's shares continue to trade solely on AIM under its ticker SQZ.

The code of practice followed for companies incorporated in the United Kingdom and listed on the premium sector of the Main Market of the London Stock Exchange is set out in the UK Corporate Governance Code (the "UK Code"). It is not compulsory for companies whose shares are traded on the AIM market but the Board applies those principles of the UK Code to the extent that it considers it reasonable and practical to do so given the size and nature of the Company.

Although the Company has now delisted from the TSX, the Company is still considered to be a reporting issuer in a number of Canadian provinces. The corporate governance guidelines applying to reporting issuers in Canada are set out under Ontario Securities Commission National Policy 58-201 (the "Corporate Governance Guidelines"). The Company is a 'designated foreign issuer' as defined under National Instrument 71-1-2-Continuous Disclosure and Other Exemptions Relating to Foreign Issuers. The Company is subject to the regulatory requirements of the AIM Market of the London Stock Exchange.

The disclosures below explain the composition of, role and responsibilities of the Board and the Board Committees.

### **The Board and its Committees**

At 1 January 2015, the Board of the Company consisted of two Executive Directors, four non-Executive Directors and the Chairman of the Board who had been acting as Interim CEO since April 2011. With effect from 1 June 2015, the Chairman has taken the role of Executive Chairman following the departure of the two Executive directors. One of the non-Executive Directors also stepped down at the conclusion of the 2015 annual General Meeting. With effect from 1 July 2015, the Board therefore comprised the Executive Chairman and three non-Executive Directors, one of whom holds the position of Senior Independent Director. It is recognised that further Board restructuring will be required in due course once the Company has achieved its short-term strategic goals. All the non-Executive Directors are independent in character and judgement and have the range of experience and calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group.

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

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to executive management. The Board is responsible for monitoring the activities of the executive management. The Executive Chairman has the responsibility of ensuring that the Board discharges its responsibilities. In the event of an equality of votes at a meeting of the Board, the Executive Chairman has a second or casting vote. The Board believes that there has been an adequate balance between the non-Executive and Executive Directors, both in number and in experience and expertise, to ensure that the Board operates independently of executive management. There is no formal Board performance appraisal system in place but the Corporate Governance and Nomination Committee considers this as part of its remit.

Other than Jeffrey Harris who represents Global Reserve Group, the Company's largest shareholder, all of the non-Executive Directors meet the requirements of independence prescribed in the UK Code.

The Chairman was independent on appointment but has not been independent for the whole of his tenure due to holding share options and his executive responsibilities.

Individual Directors may engage outside advisors at the expense of the Company upon approval by the Board in appropriate circumstances.

The Board has established a Corporate Governance and Nomination Committee, an Audit Committee, a Reserves Committee, a Remuneration and Compensation Committee and a Health, Safety and Environmental Committee. The terms of reference of the Corporate Governance and Nomination, Audit and Remuneration and Compensation Committees can be found on the Company's website [www.serica-energy.com](http://www.serica-energy.com)

#### Corporate Governance and Nomination Committee

The Corporate Governance and Nomination Committee is responsible for the Company's observance of the UK Code and the Corporate Governance Guidelines where they apply to the Company, for compliance with the rules of AIM, the rules applicable to designated foreign issuers in Canada and for other corporate governance matters, including compliance with the Company's Share Dealing Code and with AIM in respect of dealings by directors or employees in the Company's shares. The committee is responsible for monitoring the effectiveness of the Board and its Committees, proposing to the Board new nominees for election as directors to the Board, determining successor plans and for assessing directors on an ongoing basis.

The Committee did not meet during 2016 and will meet as required during the next financial year.

The Corporate Governance and Nomination Committee is comprised of the Executive Chairman and two independent non-Executive Directors. The committee is chaired by Neil Pike and its other members are Antony Craven Walker and Ian Vann.

#### Audit Committee

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

The Audit Committee met three times in 2016 and proposes to meet at least three times during the next financial year. The committee is chaired by Neil Pike and its other members are Jeffrey Harris and Ian Vann.

The responsibilities and operation of the Audit Committee are more particularly set out in the Company's Audit Committee Charter, a copy of which is available on the Company's website at [www.serica-energy.com](http://www.serica-energy.com).

#### Reserves Committee

The Reserves Committee is a sub-committee of the Audit Committee. The committee's purpose is to review the reports of the independent reserves auditors pursuant to Canadian regulations which require that the Board discuss the reserves reports with the independent reserves auditors or delegate authority to a reserves committee comprised of at least two non-Executive Directors. The committee is chaired by Ian Vann and its other member is Neil Pike. The committee met once in 2016 and typically meets at least once a year prior to publication of the annual results.

#### Remuneration and Compensation Committee

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

The committee met three times in 2016 and proposes to meet at least twice during the next financial year. In addition, written resolutions of the committee are passed from time to time particularly in relation to routine matters such as the allotment of shares pursuant to share option exercises as well as to record formally decisions of the committee reached outside the scheduled meetings.

The committee is composed of two non-Executive Directors both of whom are independent. The committee is chaired by Ian Vann and its other member is Neil Pike.

#### Health, Safety and Environmental Committee

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

The committee met four times in 2016 and proposes to meet at least three times during the next financial year. The committee is chaired by Ian Vann and its other member is Antony Craven Walker.

#### Directors' attendance at meetings

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

The Directors' attendance at scheduled Board meetings and Board committees during 2016 is detailed in the table below:

<b>Director</b>	<b>Board</b>	<b>Audit</b>	<b>Remuneration and Compensation</b>	<b>Corporate Governance and Nomination</b>	<b>HSE</b>	<b>Reserves</b>
A Craven Walker (Chairman)	11*	3^	3^	-	4	-
N Pike	10	3*	3	-*	-	-
I Vann	10	3	3*	-	4*	1*
J Harris	11	3	-	-	-	-
<b>Total meetings</b>	<b>11</b>	<b>3</b>	<b>3</b>	<b>-</b>	<b>4</b>	<b>1</b>

Notes:

1. The Chairman and non-executive Directors attended a number of meetings of committees of which they were not members during the course of the year at the invitation of the committee chairman.

\* Chairman

^ Invitee

Amanda Bateman  
Company Secretary  
5 April 2017

## **DIRECTORS' BIOGRAPHIES**

### **Antony Craven Walker Executive Chairman**

Tony Craven Walker started his career with BP and has been a leading figure in the British independent oil industry since the early 1970s. He founded two British independent oil companies, Charterhouse Petroleum, where he held the post of Chief Executive, and Monument Oil and Gas, where he held the post of Chief Executive and later became Chairman. He was also a founder member of BRINDEX (Association of British Independent Oil Exploration Companies). He was appointed Chairman of Serica in 2004 and following the retirement of the then Chief Executive in April 2011, initially acted as interim Chief Executive. With effect from 1 June 2015, he took the role of Executive Chairman following the departure of the two Executive directors.

### **Neil Pike Non-Executive Director and Senior Independent Director**

Neil Pike has been involved in the global petroleum business as a financier since joining the energy department at Citibank in 1975 until joining the board of Serica. Neil remained an industry specialist with Citibank throughout his career and was closely involved in the development of specialised oil field finance. Latterly he was responsible for Citibank's relationships with the oil and gas industry worldwide. He was appointed to the Board of Serica in 2004.

### **Ian Vann Non-Executive Director**

Ian Vann was employed by BP from 1976, and directed and led BP's global exploration efforts from 1996 until his retirement in January 2007. He was appointed to the executive leadership team of the Exploration & Production Division of BP in 2001, initially as Group Vice President, Technology and later as Group Vice President, Exploration and Business Development. He was appointed to the Board of Serica in 2007.

### **Jeffrey Harris Non-Executive Director**

Jeffrey Harris founded Global Reserve Group LLC in 2012 following a twenty-nine year career with Warburg Pincus, during which period he invested in and advised companies in the industrial, consumer, technology and energy sectors. Jeffrey has served on the board of directors of over thirty companies, including twelve publicly-traded entities. He is past chairman of the National Venture Capital Association and an adjunct professor at the Columbia University Graduate School of Business where he teaches courses on venture capital, and entrepreneurship and innovation. He was appointed to the Board of Serica in December 2012.

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

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

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

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

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

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

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

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

We have audited the financial statements of Serica Energy plc for the year ended 31 December 2016 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- ▶ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- ▶ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- ▶ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and

- ▶ The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Separate opinion in relation to IFRSs as issued by the IASB**

As explained in Note 1 to the financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion:

- ▶ based on the work undertaken in the course of the audit
  - ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
  - ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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

Paul Wallek, (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

5 April 2017

1. The maintenance and integrity of the Serica Energy plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

	<i>Note</i>	<b>2016</b> <b>US\$000</b>	2015 US\$000
<b>Continuing operations</b>			
<b>Sales revenue</b>	4	21,432	24,017
Cost of sales	5	(14,860)	(7,934)
<b>Gross profit</b>		<hr/> 6,572	16,083
Other expense		(113)	-
Pre-licence costs		(240)	(117)
Impairment and write-offs of E&E assets	15	(62)	(8,186)
Other asset write-offs	15	-	(170)
Administrative expenses		(2,062)	(2,705)
Foreign exchange loss		(556)	(430)
Share-based payments	27	(90)	9
<b>Operating profit before net finance revenue and tax</b>		<hr/> 3,449	4,484
Finance revenue	11	61	38
Finance costs	12	(185)	(202)
<b>Profit before taxation</b>		<hr/> 3,325	4,320
Taxation credit for the year	13a)	7,521	2,433
Profit for the year from continuing operations		<hr/> 10,846	6,753
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	7	(8)	(264)
<b>Profit for the year</b>		<hr/> <hr/> 10,838	6,489
<b>Earnings per ordinary share - EPS</b>			
Basic and diluted EPS on continuing operations (US\$)	14	0.04	0.03
Basic and diluted EPS on profit for the year (US\$)	14	0.04	0.03

**Group Statement of Comprehensive Income**

There are no other comprehensive income items other than those passing through the income statement.

**Serica Energy plc**  
**Registered Number: 5450950**  
**Balance Sheet**  
As at 31 December

		<b>Group 2016</b>	2015	<b>Company 2016</b>	2015
	<i>Note</i>	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
<b>Non-current assets</b>					
Exploration & evaluation assets	15	53,170	51,814	-	-
Property, plant and equipment	16	9,078	8,894	-	-
Investments in subsidiaries	17	-	-	1,350	1,350
Deferred tax asset	13d)	9,954	2,433	-	-
		<u>72,202</u>	<u>63,141</u>	<u>1,350</u>	<u>1,350</u>
<b>Current assets</b>					
Inventories	18	401	453	-	-
Trade and other receivables	19	6,849	4,165	70,141	59,635
Cash and cash equivalents	20	16,593	21,602	14,066	13,730
		<u>23,843</u>	<u>26,220</u>	<u>84,207</u>	<u>73,365</u>
<b>TOTAL ASSETS</b>		<u>96,045</u>	<u>89,361</u>	<u>85,557</u>	<u>74,715</u>
<b>Current liabilities</b>					
Trade and other payables	21	(5,877)	(9,573)	(462)	(548)
<b>Non-current liabilities</b>					
Trade and other payables	22	(2,883)	(5,621)	-	-
Provisions	23	(2,190)	-	-	-
<b>TOTAL LIABILITIES</b>		<u>(10,950)</u>	<u>(15,194)</u>	<u>(462)</u>	<u>(548)</u>
<b>NET ASSETS</b>		<u>85,095</u>	<u>74,167</u>	<u>85,095</u>	<u>74,167</u>
Share capital	25	229,308	229,308	194,036	194,036
Merger reserve	17	-	-	-	-
Other reserve		20,715	20,625	20,715	20,625
Accumulated deficit		(164,928)	(175,766)	(129,656)	(140,494)
<b>TOTAL EQUITY</b>		<u>85,095</u>	<u>74,167</u>	<u>85,095</u>	<u>74,167</u>

The profit for the Company is US\$10,838,000 for the year ended 31 December 2016 (2015: profit of US\$6,489,000). In accordance with the exemption granted under section 408 of the Companies Act 2006 a separate income statement for the Company has not been presented.

Approved by the Board on 5 April 2017

Antony Craven Walker  
Executive Chairman

Neil Pike  
Non-Executive Director

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

**Group**

	<i>Note</i>	<b>Share capital US\$000</b>	<b>Other reserve US\$000</b>	<b>Accum'd deficit US\$000</b>	<b>Total US\$000</b>
At 1 January 2015		227,958	20,634	(182,255)	66,337
Profit for the year		-	-	6,489	6,489
Total comprehensive income		-	-	6,489	6,489
Share-based payments	27	-	(9)	-	(9)
Issue of ordinary shares	25	1,350	-	-	1,350
At 31 December 2015		229,308	20,625	(175,766)	74,167
Profit for the year		-	-	10,838	10,838
Total comprehensive income		-	-	10,838	10,838
Share-based payments	27	-	90	-	90
At 31 December 2016		229,308	20,715	(164,928)	85,095

**Company**

		<b>Share capital US\$000</b>	<b>Other reserve US\$000</b>	<b>Accum'd deficit US\$000</b>	<b>Total US\$000</b>
At 1 January 2015		192,686	20,634	(146,983)	66,337
Profit for the year		-	-	6,489	6,489
Total comprehensive income		-	-	6,489	6,489
Share-based payments	27	-	(9)	-	(9)
Issue of ordinary shares	25	1,350	-	-	1,350
At 31 December 2015		194,036	20,625	(140,494)	74,167
Profit for the year		-	-	10,838	10,838
Total comprehensive income		-	-	10,838	10,838
Share-based payments	27	-	90	-	90
At 31 December 2016		194,036	20,715	(129,656)	85,095

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

	Note	<b>Group 2016 US\$000</b>	2015 US\$000	<b>Company 2016 US\$000</b>	2015 US\$000
<b>Operating activities:</b>					
Profit for the year		10,838	6,489	10,838	6,489
Adjustments to reconcile profit for the year to net cash flow from operating activities:					
Taxation credit		(7,521)	(2,433)	-	-
Net finance costs/(income)		124	164	(56)	53
Depreciation and depletion		1,274	1,341	-	-
Oil and NGL overlift reduction		(516)	(3,407)	-	-
Other asset write-offs		-	170	-	-
Impairment and write-offs of E&E assets		62	8,186	-	-
Impairment of loans and investments		-	-	(12,954)	(8,043)
Share-based payments		90	(9)	90	(9)
Other non-cash movements		866	431	1,100	443
(Increase)/decrease in trade and other receivables		(1,862)	(2,137)	(197)	273
Decrease/(increase) in inventories		52	(369)	-	-
Decrease in trade and other payables		(3,270)	(865)	(109)	(586)
<b>Net cash in/(out)flow from operations</b>		<b>137</b>	<b>7,561</b>	<b>(1,288)</b>	<b>(1,380)</b>
<b>Investing activities:</b>					
Interest received		61	11	61	10
Purchase of E&E assets		(1,418)	(3,957)	-	-
Cash (out)/inflow arising on asset acquisition	16	(2,775)	8,874	-	-
Funding provided from/(to) Group subsidiaries		-	-	2,336	6,345
<b>Net cash flow from investing activities</b>		<b>(4,132)</b>	<b>4,928</b>	<b>2,397</b>	<b>6,355</b>
<b>Financing activities:</b>					
Gross proceeds from issue of shares	25	-	-	-	-
Finance costs paid		(77)	(254)	(5)	(249)
<b>Net cash flow from financing activities</b>		<b>(77)</b>	<b>(254)</b>	<b>(5)</b>	<b>(249)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>					
Effect of exchange rates on cash and cash equivalents	26	(4,072)	12,235	1,104	4,726
Cash and cash equivalents at 1 January	26	(937)	(526)	(768)	(443)
Cash and cash equivalents at 31 December	26	21,602	9,893	13,730	9,447
Cash and cash equivalents at 31 December	26	<b>16,593</b>	<b>21,602</b>	<b>14,066</b>	<b>13,730</b>

## **Serica Energy plc**

### **Notes to the Financial Statements**

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

The Group's and Company's financial statements for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 5 April 2017 and the balance sheets were signed on the Board's behalf by Antony Craven Walker and Neil Pike. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales with its registered office at 52 George Street, London, W1U 7EA. The principal activity of the Company and the Group is to identify, acquire and subsequently exploit oil and gas reserves. Its current activities are located in the United Kingdom, Ireland, Namibia and Morocco. 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 2016. 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 2016 and as applied in accordance with the provisions of the Companies Act 2006. The Group's financial statements are also prepared in accordance with IFRS as issued by the IASB. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The profit dealt with in the financial statements of the parent Company was US\$10,838,000 (2015: profit US\$6,489,000).

#### **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 2016.

The Group and Company financial statements have been prepared on a historical cost basis and are presented in US dollars. All values are rounded to the nearest thousand dollars (US\$000) except when otherwise indicated.

##### **Going Concern**

The Directors are required to consider the availability of resources to meet the Group's liabilities for the foreseeable future. The financial position of the Group, its cash flows and capital commitments are described in the Financial Review above.

At 31 December 2016 the Company held net current assets of US\$18.0 million including cash resources of US\$16.6 million with no borrowings outstanding. The Erskine asset acquisition, completed in early June 2015 brought to Serica a producing interest capable of generating robust continuing cash flow at current oil and gas prices. Existing resources plus Erskine revenues are expected to be sufficient to cover ongoing Erskine costs and the outstanding instalments of the acquisition price plus other operational, technical and administrative costs in the short-to-medium term.

Mindful of the risks of reliance on revenues from a single field, which are underlined by the shutdown in 2016 caused by wax build-up, management will seek to continue building Group cash reserves so as to improve its financial resilience. The strategy is to

restrict near-term spend on administrative costs and exploration licences, only committing to exploration drilling where the costs are substantially carried by third parties.

Management continues to seek new business opportunities to add shareholder value and, where these can offer attractive returns, appropriate financing structures will be investigated. When the final decision to proceed with the Columbus development is made, the Group would consider a range of alternative means of finance to fund its share of development costs.

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: 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.

#### Assessment of commercial 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. There has been no significant change to the management estimates and assumptions during the year that may impact the assessment of commercial reserves.

#### 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 management expects to fund significant further expenditure in respect of a licence and whether the recoverable amount may not cover the carrying value of the assets. For development and production assets judgement is involved when determining whether there have been any significant changes in the Group's oil and gas reserves.

The Group determines whether E&E assets are impaired at an asset level and in regional cash generating units ('CGUs') when facts and circumstances suggest that the carrying amount of a regional CGU may exceed its recoverable amount. As recoverable amounts

are determined based upon risked potential, or where relevant, discovered oil and gas reserves, this involves estimations and the selection of a suitable pre-tax discount rate relevant to the asset in question. The calculation of the recoverable amount of oil and gas development and production properties involves estimating the net present value of cash flows expected to be generated from the asset in question. Future cash flows are based on assumptions on matters such as estimated oil and gas reserve quantities and commodity prices. The discount rate applied is a pre-tax rate which reflects the specific risks of the country in which the asset is located.

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

#### Deferred tax assets

Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable profits in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws. The most significant variables behind the increased deferred tax asset recognised in 2016 from 2015 are the increase in management's estimate of short-term forward commodity prices and production volumes from prior year. To the extent that future cash flows and taxable income 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 Foun Draa B.V., Serica Energy Slyne B.V., Serica Energy Rockall B.V., Serica Energy Namibia B.V., Serica Energy Corporation, Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited and Petroleum Development Associates (Lematang) Limited. Together these comprise the "Group".

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

#### **Foreign Currency Translation**

The functional and presentational currency of Serica Energy plc and all its subsidiaries is US dollars.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange ruling at the balance sheet date and differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. Exchange gains and losses arising from translation are charged to the income statement as an operating item.

## **Business Combinations and Goodwill**

### Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in administrative expenses.

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.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, or groups of cash generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

### **Joint Arrangements**

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets and obligations for the liabilities, relating to the arrangement.

The Group conducts petroleum and natural gas exploration and production activities jointly with other venturers who each have direct ownership in and jointly control the operations of the ventures. These are classified as jointly controlled operations and the financial statements reflect the Group's share of assets and liabilities in such activities. Income from the sale or use of the Group's share of the output of jointly controlled operations, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group and their amount can be measured reliably.

Full details of Serica's working interests in those petroleum and natural gas exploration and production activities classified as joint operations are included in the Review of Operations.

### **Exploration and Evaluation Assets**

As allowed under IFRS 6 and in accordance with clarification issued by the International Financial Reporting Interpretations Committee, the Group has continued to apply its existing accounting policy to exploration and evaluation activity, subject to the specific requirements of IFRS 6. The Group will continue to monitor the application of these policies in light of expected future guidance on accounting for oil and gas activities.

### Pre-licence Award Costs

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

## Exploration and Evaluation (E&E)

The costs of exploring for and evaluating oil and gas properties, including the costs of acquiring rights to explore, geological and geophysical studies, exploratory drilling and directly related overheads, are capitalised and classified as intangible E&E assets. These costs are directly attributed to regional CGUs for the purposes of impairment testing; UK & Ireland and Africa.

E&E assets are not amortised prior to the conclusion of appraisal activities but are assessed for impairment at an asset level and in regional CGUs when facts and circumstances suggest that the carrying amount of a regional cost centre may exceed its recoverable amount. Recoverable amounts are determined based upon risked potential, and where relevant, discovered oil and gas reserves. When an impairment test indicates an excess of carrying value compared to the recoverable amount, the carrying value of the regional CGU is written down to the recoverable amount in accordance with IAS 36. Such excess is expensed in the income statement. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is reversed as a credit to the income statement.

Costs of licences and associated E&E expenditure are expensed in the income statement if licences are relinquished, or if management do not expect to fund significant future expenditure in relation to the licence.

The E&E phase is completed when either the technical feasibility and commercial viability of extracting a mineral resource are demonstrable or no further prospectivity is recognised. At that point, if commercial reserves have been discovered, the carrying value of the relevant assets, net of any impairment write-down, is classified as an oil and gas property within property, plant and equipment, and tested for impairment. If commercial reserves have not been discovered then the costs of such assets will be written off.

## Asset Purchases and Disposals

When a commercial transaction involves the exchange of E&E assets of similar size and characteristics, no fair value calculation is performed. The capitalised costs of the asset being sold are transferred to the asset being acquired. Proceeds from a part disposal of an E&E asset, including back-cost contributions are credited against the capitalised cost of the asset, with any excess being taken to the income statement as a gain on disposal.

## Farm-ins

In accordance with industry practice, the Group does not record its share of costs that are 'carried' by third parties in relation to its farm-in agreements in the E&E phase. Similarly, while the Group has agreed to carry the costs of another party to a Joint Operating Agreement ("JOA") in order to earn additional equity, it records its paying interest that incorporates the additional contribution over its equity share.

## **Property, Plant and Equipment – Oil and gas properties**

### Capitalisation

Oil and gas properties are stated at cost, less any accumulated depreciation and accumulated impairment losses. Oil and gas properties are accumulated into single field cost centres and represent the cost of developing the commercial reserves and bringing them into production together with the E&E expenditures incurred in finding commercial reserves previously transferred from E&E assets as outlined in the policy above. The cost will include, for qualifying assets, borrowing costs.

### Depletion

Oil and gas properties are not depleted until production commences. Costs relating to each single field cost centre are depleted on a unit of production method based on the commercial proved and probable reserves for that cost centre. The depletion calculation takes account of the estimated future costs of development of recognised proved and probable reserves. Changes in reserve quantities and cost estimates are recognised prospectively from the last reporting date.

### Impairment

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

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

### Acquisitions, Asset Purchases and Disposals

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

Transactions involving the purchase of an individual field interest, or a group of field interests, that do not constitute a business, are treated as asset purchases. Accordingly, no goodwill and no deferred tax gross up arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis. Proceeds from the entire disposal of a development and production asset, or any part thereof, are taken to the income statement together with the requisite proportional net book value of the asset, or part thereof, being sold.

### 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'). Movements during an accounting period are adjusted through revenue, such that gross profit is recognised on an entitlement basis.

## **Property, Plant and Equipment - Other**

Computer equipment and fixtures, fittings and equipment are recorded at cost as tangible assets. The straight-line method of depreciation is used to depreciate the cost of these assets over their estimated useful lives. Computer equipment is depreciated over three years and fixtures, fittings and equipment over four years.

## **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs and transportation expenses.

## **Investments**

In its separate financial statements the Company recognises its investments in subsidiaries at cost less any provision for impairment.

## **Financial Instruments**

Financial instruments comprise financial assets, cash and cash equivalents, financial liabilities and equity instruments.

### Financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial asset are capitalised unless they relate to a financial asset classified at fair value through profit and loss in which case transaction costs are expensed in the income statement.

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 include interest bearing loans and borrowings, and trade and other payables.

Obligations for loans and borrowings are recognised when the Group becomes party to

the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

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

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

### Equity

Equity instruments issued by the Company are recorded in equity at the proceeds received, net of direct issue costs.

### **Provisions**

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

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

### **Leases**

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

### **Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. 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. Revenue from oil and natural gas production is recognised on an entitlement basis for the Group's net working interest.

### **Finance Revenue**

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

### **Finance Costs**

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

### **Share-Based Payment Transactions**

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

### 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 accounting policies adopted are consistent with those of the previous financial year, there are no new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

### **Standards issued but not yet effective**

Certain standards or interpretations issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group is currently assessing the impact of these standards and intends to adopt them when they become effective.

<b>Standard</b>	<b>Effective year commencing on or after</b>
IFRS 9 – Financial Instruments	1 January 2018
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 16 – Leases	1 January 2019 *

*\*Not yet endorsed by the EU*

### 3. Segment Information

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

The following tables present revenue, profit and certain asset and liability information regarding the Group's geographical reportable segments for the years ended 31 December 2016 and 2015. Costs associated with the UK corporate centre are included in the UK reportable segment. Reportable information in respect of the Group's interest in the producing Kambuna field in Indonesia is disclosed as a separate segment, with income statement information for the Kambuna field in Indonesia additionally classified as 'discontinued'.

Year ended 31 December 2016	UK US\$000	Ireland US\$000	Africa US\$000	Continuing Total US\$000	Discontinued US\$000
<b>Revenue</b>	21,432	-	-	21,432	-
<i>Continuing operations</i>					
Other expenses	(17,681)	-	-	(17,681)	(8)
Pre-licence costs	(237)	(3)	-	(240)	-
E&E asset impairment/write-offs	(7)	-	(55)	(62)	-
Operating and segment profit/loss	3,507	(3)	(55)	3,449	(8)
Finance costs	61	-	-	61	-
Finance revenue	(185)	-	-	(185)	-
Profit/(loss) before taxation	3,383	(3)	(55)	3,325	(8)
Taxation credit for the year	7,521	-	-	7,521	-
<b>Profit/(loss) after taxation</b>	10,904	(3)	(55)	10,846	(8)
	UK US\$000	Ireland US\$000	Africa US\$000	Kambuna US\$000	Total US\$000
Other segment information:					
Property, plant & equipment	9,078	-	-	-	9,078
Exploration and evaluation assets	41,648	8,204	3,318	-	53,170
Other assets	19,994	57	-	12	20,063
Unallocated assets					13,734
<b>Total assets</b>	70,270	8,261	3,318	12	96,045
Segment liabilities	(10,508)	(338)	(91)	(13)	(10,950)
<b>Total liabilities</b>	(10,508)	(338)	(91)	(13)	(10,950)
Capital expenditure 2016:					
Exploration and evaluation assets	407	581	430	-	1,418
Property, plant & equipment	1,458	-	-	-	1,458

Year ended 31 December 2015

				Continuing	Discontinued
	UK	Ireland	Africa	Total	
	US\$000	US\$000	US\$000	US\$000	US\$000
<b>Revenue</b>	24,017	-	-	24,017	-
<i>Continuing operations</i>					
Depletion	(1,341)	-	-	(1,341)	
Other expenses	(9,719)	-	-	(9,719)	(264)
Pre-licence costs	(59)	(52)	(6)	(117)	-
Other asset write-offs	-	-	(170)	(170)	-
E&E asset impairment/write-offs	(4,385)	(3,737)	(64)	(8,186)	-
Operating and segment profit/loss	8,513	(3,789)	(240)	4,484	(264)
Finance costs	(202)	-	-	(202)	-
Finance revenue	38	-	-	38	-
Profit/(loss) before taxation	8,349	(3,789)	(240)	4,320	(264)
Taxation credit for the year	2,433	-	-	2,433	-
<b>Profit/(loss) after taxation</b>	10,782	(3,789)	(240)	6,753	(264)
	UK	Ireland	Africa	Kambuna	Total
	US\$000	US\$000	US\$000	US\$000	US\$000
Other segment information:					
Property, plant & equipment	8,894	-	-	-	8,894
Exploration and evaluation assets	41,248	7,623	2,943	-	51,814
Other assets	20,891	86	231	2	21,210
Unallocated assets					7,443
<b>Total assets</b>	71,033	7,709	3,174	2	89,361
Segment liabilities	(14,770)	(124)	(297)	(3)	(15,194)
<b>Total liabilities</b>	(14,770)	(124)	(297)	(3)	(15,194)
Capital expenditure 2015:					
Property, plant & equipment	10,235	-	-	-	10,235
Exploration and evaluation assets	927	859	371	-	2,157

Unallocated assets and liabilities comprise financing items (including cash on deposit). Information on major customers is provided in note 4.

#### 4. Sales Revenue

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
Gas sales	8,374	9,137
Oil sales	11,090	10,377
NGL sales	1,451	1,096
Movement in liquids overlift/underlift	517	3,407
	<u>21,432</u>	<u>24,017</u>

Gas sales revenue in 2015 and 2016 arose entirely from two key customers paying US\$7,581,000 (2015: US\$6,590,000) and US\$793,000 (2015: US\$2,547,000) respectively which individually represented more than 10% of total sales in either or both of the current and prior year. All oil sales revenue in 2015 and 2016 was from one key customer.

#### 5. Cost of Sales

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
Operating costs	13,586	6,593
Depletion (see note 16)	1,274	1,341
	<u>14,860</u>	<u>7,934</u>

#### 6. Analysis of Expenses by Function

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
Administrative	2,062	2,705
Impairment and write-offs of E&E assets (see note 15)	62	8,186
Other asset write-offs	-	170
Other	999	538
	<u>3,123</u>	<u>11,599</u>

## 7. Discontinued Operation

During 2013, Serica's sole remaining interest in Indonesia was its 25% interest in the Glagah Kambuna Technical Assistance Contract ("TAC"). The TAC covered an area offshore North Sumatra and contained the Kambuna gas field. In July 2013, the field reached the end of its economic life and was shut-in. The partnership agreed handover arrangements with the Indonesian authorities which involved securing the three wells and wellhead structure. Following the completion of the agreed decommissioning procedures in Q4 2013, the TAC was formally terminated on 31 December 2013 and the facilities handed over to Pertamina.

Following the developments of the Kambuna business segment in the second half of 2013, the financial results of the Kambuna field are now disclosed as 'discontinued' operations and separate from the results of the continuing business segments.

### Results of discontinued operations

The results of the discontinued operations are presented below:

	<b>Year ended 31 December 2016 US\$000</b>	Year ended 31 December 2015 US\$000
<b>Sales revenue</b>	-	-
Cost of sales	-	-
<b>Gross profit</b>	-	-
Other operating expenses	(8)	(264)
<b>Operating loss and loss before tax</b>	(8)	(264)
Taxation charge for the year	-	-
<b>Loss for the year</b>	<u>(8)</u>	<u>(264)</u>
<b>Earnings per ordinary share (EPS)</b>	US\$	US\$
Basic and diluted EPS on result in year	(0.00)	(0.00)

The loss for 2015 comprised a final assessment for asset write offs and minor operator expense as residual matters were closed out with one final charge of US\$8,000 in 2016.

The earnings per ordinary share for the discontinued operations is derived from the net loss attributable to equity holders of the parent from discontinued operations of US\$8,000 (2015: loss of US\$264,000), divided by the weighted average number of ordinary shares for both basic and diluted amounts as disclosed in note 14.

### Other

There are no taxation components within discontinued operations.

The net cash flows attributable to the disposal group in discontinued operations in 2016 are operating cash outflows of US\$7,000 (2015: cash inflow US\$370,000).

## 8. Group Operating Profit

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
This is stated after charging:		
Operating lease rentals (minimum lease payments):		
- Land and buildings	70	172
- Other	-	10
Total lease payments recognised as an expense	<u>70</u>	<u>182</u>

### Operating sublease agreements where the Group is lessor

In the year ended 31 December 2015, the Group received US\$30,000 of rental income receivable under a sub-lease of its office premises which expired in March 2015.

### Depreciation, depletion and amortisation expense

There was no charge for depreciation of other property, plant and equipment in 2015 or 2016.

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

## 9. Auditor's Remuneration

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
Audit of the Group accounts	86	101
Audit of the Company's accounts	27	32
Audit of accounts of Company's subsidiaries	10	12
Total audit fees	<u>123</u>	<u>145</u>
	<b>US\$000</b>	US\$000
Other fees to auditor:		
Taxation advisory services	-	-
	<u>-</u>	<u>-</u>

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

## 10. Staff Costs and Directors' Emoluments

### a) Staff Costs

The average monthly number of persons employed by the Group and Company during the year was:	<b>2016</b>	2015
	<b>No.</b>	No.
Management	3	2
Technical	1	2
Finance and administration	1	2
	<u>5</u>	<u>6</u>
	<b>US\$000</b>	US\$000
Staff costs for the above persons:		
Wages and salaries	1,146	1,832
Social security costs	143	215
Other pension costs	55	98
Share-based long-term incentives	90	(9)
	<u>1,434</u>	<u>2,136</u>
Staff costs for key management personnel:		
Short-term employee benefits	667	1,054
Post-employment benefits	-	32
Share-based payments	22	(136)
	<u>689</u>	<u>950</u>

### b) Directors' Emoluments

The emoluments of the individual Directors were as follows. Other than fees paid to Jeffrey Harris in US\$, all sums are paid in £ sterling but are converted at an exchange rate of £1=US\$1.355 (2015: £1=US\$1.528) to US\$ being the reporting currency for the purposes of the Company's accounts.

	2016	2016	2016	2016	<b>2016</b>	2015
	Salary and	Bonus	Pension	Benefits	<b>Total</b>	Total
	fees			in kind		
	US\$000	US\$000	US\$000	US\$000	<b>US\$000</b>	US\$000
A Craven Walker (1)	407	-	-	28	435	438
N Pike	54	-	-	-	54	52
I Vann	54	-	-	-	54	48
J Harris	54	-	-	-	54	48
C Hearne (2)	-	-	-	-	-	184
M Flegg (3)	-	-	-	-	-	185
S Theede (4)	-	-	-	-	-	17
	<u>569</u>	<u>-</u>	<u>-</u>	<u>28</u>	<u>597</u>	<u>972</u>

Note (1) Mr Craven Walker has acted as Interim CEO since 10 April 2011. Since 1 May 2012, Mr Craven Walker has received a combined fee in respect of services as Chairman and Interim CEO pending the appointment of a successor to the CEO position. Since 1 January 2013 his combined fee for services as Chairman and Interim CEO has included a provision for travel allowance but he was not entitled to any other award such as share options, share scheme, bonus, pension or medical insurance. With effect from 1 June 2015, he took the role of Executive Chairman following the departure of the two Executive directors. Under his new contract as Executive Chairman he is entitled to the award of share options, share schemes and bonus.

Note (2) Chris Hearne resigned on 31 May 2015

Note (3) Mitch Flegg resigned on 31 May 2015

Note (4) Steve Theede resigned on 30 June 2015

	<b>2016</b>	2015
Number of Directors securing benefits under defined contribution schemes during the year	-	2
Number of Directors who exercised share options	-	-
	<b>US\$000</b>	US\$000
Aggregate gains made by Directors on the exercise of options	-	-

The Group defines key management personnel as the Directors of the Company. There are no transactions with Directors other than their remuneration as disclosed above and those described in Note 30.

## 11. Finance Revenue

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
Bank interest receivable	61	11
Other finance revenue	-	27
Total finance revenue	<u>61</u>	<u>38</u>

## 12. Finance Costs

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
Interest payable on Erskine acquisition consideration	179	107
Other interest payable	6	5
Other finance costs	-	90
Total finance costs	<u>185</u>	<u>202</u>

### 13. Taxation

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
a) Tax charged/(credited) in the income statement		
Charge for the year	-	-
Adjustment in respect of prior years	-	-
Total current income tax charge	<u>-</u>	<u>-</u>
Deferred tax		
Origination and reversal of temporary differences in the current year	-	(2,433)
Adjustment in respect of prior years	(8,008)	-
Adjustment to reflect tax rate changes in recognition of deferred tax	487	-
Total deferred tax credit	<u>(7,521)</u>	<u>(2,433)</u>
Tax credit in the income statement	<u>(7,521)</u>	<u>(2,433)</u>

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

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

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
Accounting profit/(loss) before taxation – continuing ops	3,325	4,320
Accounting loss before taxation – discontinued ops	(8)	(264)
Accounting profit/(loss) before taxation	<u>3,317</u>	<u>4,056</u>
Expected tax charge/(credit) at standard UK corporation tax rate of 20% (2015 – 20.25%)	663	821
Impact of higher tax rates on ring fence profits	1,112	-
Expenses not deductible for tax purposes	72	140
Write-off of exploration assets	16	1,899
Unrecognised tax losses	373	304
Utilisation of tax losses not previously recognised	(2,229)	(2,926)
Different foreign tax rates	(7)	(238)
Adjustment to reflect tax rate changes	487	-
Recognition of losses not previously recognised	(8,008)	(2,433)
Tax credit reported in the income statement	<u>(7,521)</u>	<u>(2,433)</u>

c) Recognised and unrecognised tax losses

Following the acquisition of a producing UK asset in 2015, the Group has recognised a deferred tax asset of US\$10.0 million (2015: US\$2.4 million) in respect of certain carried forward losses that are expected to be utilised in the foreseeable future to offset the taxable profits that the acquired asset is expected to generate.

The benefit of approximately US\$119.5 million (2015: US\$144.2 million) of tax losses has not been recognised in these consolidated statements which reflects the extent of the total available UK tax losses that have not either been recognised in the net deferred tax asset or set against a deferred tax liability arising. The Group has UK ring fence tax losses of US\$165.6 million available as at 31 December 2016 (2015: US\$171.3 million) which form part of total UK tax losses of approximately US\$194.6 million (2015: US\$198.7 million) that are available indefinitely for offset against future trading profits of the companies in which the losses arose. Of this amount US\$50.3 million (2015: US\$49.6 million) has been set off against taxable temporary differences.

d) Deferred tax

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

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
Deferred tax liability:		
Temporary differences on capital expenditure	(20,104)	(24,806)
Deferred tax liability	<u>(20,104)</u>	<u>(24,806)</u>
Deferred tax asset:		
Temporary difference on future recoverable costs	-	-
Tax losses carried forward	30,058	27,239
Deferred tax asset	<u>30,058</u>	<u>27,239</u>
Net deferred tax asset	<u>9,954</u>	<u>2,433</u>

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

	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
Deferred tax in the income statement:		
Temporary differences on capital expenditure	(4,702)	(2,539)
Temporary difference on future recoverable costs	-	-
Tax losses carried forward	(2,819)	106
Deferred income tax credit	<u>(7,521)</u>	<u>(2,433)</u>

e) Changes to UK corporation tax legislation

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

From 1 January 2015, the rate of Supplementary Charge (SC) was 20%, which reduced the headline rate of tax from 62% to 50% for ring-fenced trading profits. In March 2016 it was announced that the rate of SC would be reduced from 20% to 10% with effect from 1 January 2016. This was substantively enacted on 6 September 2016 and further reduces the headline rate of tax to 40% for ring-fenced trading profits.

f) Unrecognised deferred tax liability

In 2016 and 2015 there are no material temporary differences associated with subsidiaries for which deferred tax liabilities have not been recognised.

g) Company

The Company has US\$28.7 million (2015: US\$ 26.8 million) of UK corporation tax losses which are not recognised as deferred tax assets.

#### 14. Earnings Per Share

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

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

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

	<b>2016</b> <b>US\$000</b>	2015 US\$000
Net profit from continuing operations	<u>10,846</u>	<u>6,753</u>
Net profit attributable to equity holders of the parent	<u>10,838</u>	<u>6,489</u>
	<b>2016</b> <b>'000</b>	2015 '000
Basic weighted average number of shares	<u>263,679</u>	<u>257,946</u>
Diluted weighted average number of shares	<u>264,358</u>	<u>257,946</u>
	<b>2016</b> <b>US\$</b>	2015 US\$
Basic EPS on profit on continuing operations (US\$)	0.04	0.03
Diluted EPS on profit on continuing operations (US\$)	0.04	0.03
Basic EPS on profit for the year (US\$)	0.04	0.03
Diluted EPS on profit for the year (US\$)	0.04	0.03

On completion of the acquisition of an 18% interest in the Erskine field, 13,500,000 ordinary shares were issued to BP as part of the consideration (see note 16).

## 15. Exploration and Evaluation Assets

<b>Group</b>	<b>Total US\$000</b>
Cost:	
1 January 2015	75,343
Additions	2,157
Write-offs	(13,122)
31 December 2015	<u>64,378</u>
Additions	1,418
Write-offs	(62)
31 December 2016	<u>65,734</u>
Provision for impairment:	
1 January 2015	(17,500)
Impairment reversal for the year	4,936
31 December 2015	<u>(12,564)</u>
Impairment reversal for the year	-
31 December 2016	<u>(12,564)</u>
Net book amount:	
31 December 2016	<u>53,170</u>
31 December 2015	<u>51,814</u>
1 January 2015	<u>57,843</u>

The aggregate impairment and write-off charge against E&E assets in 2016 was US\$0.1 million (2015: US\$8.2 million). The 2015 comparative charge comprised E&E asset write-offs of US\$13.1 million and an impairment reversal of US\$4.9 million against the Columbus asset in the UK. The 2015 E&E asset write-offs of US\$13.1 million related to the costs incurred on relinquished UK licences (US\$3.5 million), a charge of US\$5.8 million on the UK P1482 licence, a US\$3.7 million charge against the Slyne asset in Ireland, and a US\$0.1 million charge in Morocco.

The partial impairment reversal recorded against Columbus book amounts in 2015 arose from revised economic evaluations. The Company increased its interest in the asset in 2015 from 33.2% to 50% for nominal consideration. Incremental economic value attributed to the increased holding in the asset more than offset the use of lower hydrocarbon prices in management's estimation of future discounted cash flows of the asset leading to an overall gain. In 2016, management has not identified any indicators suggesting further impairment or reversal of impairment.

The recoverable amount of US\$39.8 million for the Columbus asset in 2015 was determined on a fair value less costs of disposal basis ('FVLCD') using a discounted cash flow model. The projected cash flows were extrapolated until 2029 using a 2.5% growth rate and were adjusted for risks specific to the asset and discounted using a discount

rate of 10.5%. This discount rate is derived from the Group's estimates of discount rates that might be applied by active market participants and is adjusted where applicable to take into account any specific risks relating to the region where the cash generating unit is located.

In determining FVLCD it is necessary to make a series of assumptions to estimate future cash flows including volumes, price assumptions and cost estimates. Accordingly, the fair value is categorised as Level 3 in the fair value hierarchy.

The calculation is most sensitive to the following assumptions; discount rates, oil prices, reserves estimates and project risk. Changes in these assumptions, or the status of negotiations on the infrastructure access for the asset, could lead to a material change to the recoverable amount in future periods.

Other asset write offs in the Income Statement in 2015 consisted of a US\$0.2 million charge against obsolete inventory.

### **Company**

The Company has no E&E assets.

## 16. Property, Plant and Equipment

Group	Oil and gas properties	Computer/IT Equipment	Fixtures, Fittings & Equipment	Total
	US\$000	US\$000	US\$000	US\$000
Cost:				
1 January 2015	-	189	901	1,090
Additions	10,235	-	-	10,235
Disposals	-	(189)	(901)	(1,090)
31 December 2015	10,235	-	-	10,235
Additions	1,458	-	-	1,458
31 December 2016	11,693	-	-	11,693
Depreciation and depletion:				
1 January 2015	-	189	901	1,090
Charge for the year (note 5)	1,341	-	-	1,341
Disposals	-	(189)	(901)	(1,090)
31 December 2015	1,341	-	-	1,341
Charge for the year (note 5)	1,274	-	-	1,274
31 December 2016	2,615	-	-	2,615
Net book amount:				
31 December 2016	9,078	-	-	9,078
31 December 2015	8,894	-	-	8,894
1 January 2015	-	-	-	-

In June 2015, Serica Energy (UK) Limited acquired an 18% non-operated interest in the Erskine field located in the UK Central North Sea. This was treated as an asset acquisition. The total acquisition cost initially recorded was US\$10.2 million (comprising cash consideration of US\$8.885 million and non-cash consideration of US\$1.35 million) which reflects the headline price plus internal transition costs less net income attributable to the interest from the effective date of 1 January 2014. Additions of US\$1.5 million during 2016 comprise US\$2.2 million relating to the Company's estimate of contingent payments due to BP (see note 23) partially offset by other pre-completion date adjustments and revisions.

### Other

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

### Company

The Company has no property, plant and equipment.

## 17. Investments

<b>Company</b> – Investment in subsidiaries	<b>Total US\$000</b>
Cost:	
As at 1 January 2015	132,684
Increase in investment	1,350
As at 31 December 2015 and 2016	<u>134,034</u>
Provision for impairment:	
As at 1 January 2015	(132,684)
Impairment charge for the year	-
As at 31 December 2015 and 2016	<u>(132,684)</u>
Net book amount:	
31 December 2016	<u>1,350</u>
31 December 2015	<u>1,350</u>
1 January 2015	<u>-</u>

In the Company financial statements, the cost of the investment acquired on the Reorganisation (see note 1) was calculated with reference to the market value of Serica Energy Corporation as at the date of the Reorganisation. As a UK company, under Section 612 of the Companies Act 2006, the Company is entitled to merger relief on its share reorganisation with Serica Energy Corporation, and the excess of US\$112,174,000 over the nominal value of shares issued (US\$7,475,000) has been credited to a merger reserve. Following the impairment charges recorded in 2010 and 2013 against the Company's investment in subsidiary undertakings, all amounts initially credited to the merger reserve have been eliminated.

Management has assessed the carrying value of investments in subsidiaries in the parent company balance sheet for impairment by reference to the recoverable amount. In 2016, the reduction of US\$12,954,000 (2015: US\$8,043,000) in provision for impairment against amounts owed by Group undertakings (see note 19) has been made following an increase in value attributed to certain of the oil and gas assets held by the Company's subsidiary undertakings. The increase in value recognised in 2015 arose following the acquisition of the Erskine field interest and increased holding in Columbus asset.

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

Name of company:	Holding	Nature of business	<b>% voting rights and shares held 2016</b>	% voting rights and shares held 2015
Serica Holdings UK Ltd	Ordinary	Holding	100	100
Serica Energy Holdings BV (i & iii)	Ordinary	Holding	100	100
Serica Energy (UK) Ltd (i)	Ordinary	E&P	100	100
Serica Sidi Moussa BV (i & iii)	Ordinary	Exploration	100	100
Serica Foug Draa BV (i & iii)	Ordinary	Dormant	100	100
Serica Energy Slyne BV (i & iii)	Ordinary	Exploration	100	100
Serica Energy Rockall BV (i & iii)	Ordinary	Exploration	100	100
Serica Energy Namibia BV (i & iii)	Ordinary	Exploration	100	100
Serica Glagah Kambuna BV (i & iii)	Ordinary	Dormant	100	100
Serica Energy Corporation (i & ii)	Ordinary	Dormant	100	100
APD Ltd (i & ii)	Ordinary	Dormant	100	100
PDA Asia Ltd (i & ii)	Ordinary	Dormant	100	100
PDA (Lematang) Ltd (i)	Ordinary	Dormant	100	100
Serica UK Exploration Ltd (i)	Ordinary	Dormant	100	100
Serica Walvis Namibia BV (i & iii)	Ordinary	Dormant	100	100

(i) Held by a subsidiary undertaking

(ii) Incorporated in the British Virgin Islands

(iii) Incorporated in the Netherlands

The registered office of the Company's subsidiaries incorporated in the UK is 52 George Street, London, W1U 7EA.

The registered office of the Company's subsidiaries incorporated in the Netherlands is Weena 327, 3013AL Rotterdam.

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

## 18. Inventories

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Materials and spare parts	401	453	-	-
	<u>401</u>	<u>453</u>	<u>-</u>	<u>-</u>

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. US\$170,000 was expensed in the income statement as an asset write-off against materials and spare parts in 2015.

## 19. Trade and Other receivables

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Due within one year:				
Amounts owed by Group undertakings	-	-	69,829	59,211
Trade receivables	4,265	3,188	-	-
Amounts recoverable from JV partners	1,909	401	-	-
Other receivables	143	216	138	215
Prepayments and accrued income	182	360	174	209
Liquids underlift	350	-	-	-
Trade and other receivables	<u>6,849</u>	<u>4,165</u>	<u>70,141</u>	<u>59,635</u>

Trade receivables at 31 December 2016 arose from four (2015: four) customers.

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

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

At the reporting date the amounts owed by Group undertakings to the Company are disclosed net of an impairment of US\$67,033,000 (2015: US\$79,987,000) – see note 17.

## 20. Cash and Short-Term Deposits

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Cash at bank and in hand	2,859	14,159	332	6,287
Short-term deposits	13,734	7,443	13,734	7,443
	<u>16,593</u>	<u>21,602</u>	<u>14,066</u>	<u>13,730</u>

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

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

	S&P credit	<b>Group</b>		<b>Company</b>	
	rating	<b>2016</b>	2015	<b>2016</b>	2015
		<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Barclays Bank plc	A-2	8,835	10,719	6,328	2,858
HSBC Bank plc	A-1+	-	4,909	-	4,909
Lloyds Bank plc	A-1	7,738	5,963	7,738	5,963

For the purposes of the consolidated and Company cash flow statement, cash and cash equivalents comprise the above amounts at 31 December.

## 21. Trade and Other Payables

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Current:				
Trade payables	246	1,909	194	277
Other payables	2,749	4,687	268	271
Liquids overlift	-	166	-	-
BP consideration liability (see note 22)	2,882	2,811	-	-
	<u>5,877</u>	<u>9,573</u>	<u>462</u>	<u>548</u>

## 22. Trade and Other Payables – Non current

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
BP consideration liability	2,883	5,621	-	-
	<u>2,883</u>	<u>5,621</u>	<u>-</u>	<u>-</u>

Long term liabilities of US\$2.9 million as at 31 December 2016 comprise the final tranche of outstanding consideration payable to BP following the acquisition of the Erskine producing asset in June 2015. The aggregate outstanding sum is payable in two tranches of US\$2.8 million plus accrued interest on 1 July 2017 (see note 21) and 1 July 2018 respectively.

## 23. Provisions

<b>Group</b>	<b>2016</b>	2015
	<b>US\$000</b>	US\$000
As at 1 January	-	-
Unwinding of discount	-	-
Additions	2,190	-
As at 31 December	<u>2,190</u>	<u>-</u>

Under the terms of the Erskine acquisition, certain contingent payments may be made by Serica related to savings in field operating costs. The current fair value estimated provision for these amounts is US\$2.2 million which has been capitalised as an asset acquisition cost (see note 16). Uncertainties currently exist as to the quantification of any final payment, likely to be payable in 2019, that might be due in the longer term.

No provision for decommissioning liabilities for the Erskine field is recorded as at 31 December 2015 or 2016 as the Group's current estimate for such costs is under the agreed capped level to be funded by BP. This has been fixed at a gross £174.0 million (£31.32 million net to Serica) with this figure adjusted for inflation.

### **Company**

The Company has no provisions.

## 24. Financial Instruments

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

Serica has exposure to interest rate fluctuations on its cash deposits and the BP consideration liability; given the level of expenditure plans over 2017/18 this is managed in the short-term through selecting treasury deposit periods of one to three months. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise concentration and counterparty risk.

Where Serica operates joint ventures on behalf of partners it seeks to recover the appropriate share of costs from these third parties. The majority of partners in these ventures are well established oil and gas companies. In the event of non payment, operating agreements typically provide recourse through increased venture shares.

Serica retains certain non US\$ cash holdings and other financial instruments relating to its operations. The US\$ reporting currency value of these may fluctuate from time to time causing reported foreign exchange gains and losses. Serica maintains a broad strategy of matching the currency of funds held on deposit with the expected expenditures in those currencies. Management believes that this mitigates most of any actual potential currency risk from financial instruments.

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

### Interest Rate Risk Profile of Financial Assets and Liabilities

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

#### **Group**

#### **Year ended 31 December 2016**

	<b>Within 1 year US\$000</b>	<b>1-2 years US\$000</b>	<b>2-5 years US\$000</b>	<b>Total US\$000</b>
Fixed rate				
Short-term deposits	13,734	-	-	13,734
				<u>13,734</u>
Floating rate				
Cash	2,859	-	-	2,859
BP consideration liability	(2,882)	(2,883)	-	(5,765)
				<u>(2,906)</u>

#### **Year ended 31 December 2015**

	<b>Within 1 year US\$000</b>	<b>1-2 years US\$000</b>	<b>2-5 years US\$000</b>	<b>Total US\$000</b>
Fixed rate				
Short-term deposits	7,443	-	-	7,443
				<u>7,443</u>
Floating rate				
Cash	14,159	-	-	14,159
BP consideration liability	(2,811)	(2,811)	(2,810)	(8,432)
				<u>5,727</u>

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

Increase/decrease in interest rate	<b>Effect on profit before tax 2016 US\$000</b>	Effect on profit before tax 2015 US\$000
+0.75%	88	59
-0.75%	(88)	(59)

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

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

### **Company**

#### **Year ended 31 December 2016**

	<b>Within 1 year US\$000</b>	<b>1-2 years US\$000</b>	<b>2-5 years US\$000</b>	<b>Total US\$000</b>
Fixed rate				
Short-term deposits	13,734	-	-	<u>13,734</u>
				<u>13,734</u>

	<b>Within 1 year US\$000</b>	<b>1-2 years US\$000</b>	<b>2-5 years US\$000</b>	<b>Total US\$000</b>
Floating rate				
Cash	332	-	-	<u>332</u>
				<u>332</u>

#### **Year ended 31 December 2015**

	<b>Within 1 year US\$000</b>	<b>1-2 years US\$000</b>	<b>2-5 years US\$000</b>	<b>Total US\$000</b>
Fixed rate				
Short-term deposits	7,443	-	-	<u>7,443</u>
				<u>7,443</u>

	<b>Within 1 year US\$000</b>	<b>1-2 years US\$000</b>	<b>2-5 years US\$000</b>	<b>Total US\$000</b>
Floating rate				
Cash	6,287	-	-	<u>6,287</u>
				<u>6,287</u>

### Credit risk

The Group's and Company's exposure to credit risk relating to financial assets arises from the default of a counterparty with a maximum exposure equal to the carrying value as at the balance sheet date. The Group's oil and gas sales are all contracted with well established oil and gas or energy companies. Also, where Serica operates joint ventures on behalf of partners it seeks to recover the appropriate share of costs from the third party counterparties. The majority of partners in these ventures are well established oil and gas companies. In the event of non payment, operating agreements typically provide recourse through increased venture shares. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.

### Foreign currency risk

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

	<b>Group 2016 US\$000</b>	2015 US\$000	<b>Company 2016 US\$000</b>	2015 US\$000
Cash and cash equivalents:				
Pounds sterling	3,368	7,886	1,377	5,857
Norwegian kroner	8	8	-	-
Euros	19	47	-	-
Accounts receivable:				
Pounds sterling	4,017	1,065	29	28
Trade and other payables:				
Pounds sterling	2,457	6,071	421	642
Euros	377	116	58	39

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

	<b>Effect on profit before tax 2016 US\$000</b>	Effect on profit before tax 2015 US\$000
Increase/decrease in foreign exchange rate		
10% strengthening of US\$ against £GBP	493	288
10% weakening of US\$ against £GBP	(493)	(288)

### Liquidity risk

The table below summarises the maturity profile of the Group and Company's financial liabilities at 31 December 2016 based on contractual undiscounted payments. The Group monitors its risk to a potential shortage of funds by monitoring the maturity dates of existing debt.

#### **Group**

<b>Year ended 31 December 2016</b>	<b>Within 1 year US\$000</b>	<b>1 to 2 years US\$000</b>	<b>2 to 5 years US\$000</b>	<b>Total US\$000</b>
Trade and other payables	5,877	2,883	-	8,760
<b>Year ended 31 December 2015</b>				
	<b>Within 1 Year US\$000</b>	<b>1 to 2 years US\$000</b>	<b>2 to 5 years US\$000</b>	<b>Total US\$000</b>
Trade and other payables	9,573	2,811	2,810	15,194

<b>Company</b>				
<b>Year ended 31 December 2016</b>	<b>Within 1 year US\$000</b>	<b>1 to 2 years US\$000</b>	<b>2 to 5 years US\$000</b>	<b>Total US\$000</b>
Trade and other payables	462	-	-	462

  

<b>Year ended 31 December 2015</b>	<b>Within 1 Year US\$000</b>	<b>1 to 2 years US\$000</b>	<b>2 to 5 years US\$000</b>	<b>Total US\$000</b>
Trade and other payables	548	-	-	548

### Commodity price risk

The Group is exposed to commodity price risk. Where and when appropriate the Group will put in place suitable hedging arrangements to mitigate the risk of a fall in commodity prices.

During 2016, 9% (2015: 32%) of the Group's gas production was sold at fixed prices under a contract which expired on 30 September 2016. All gas production is now sold at prices linked to the spot market. All oil and NGL production was sold at prices linked to the spot market.

At 31 December 2016, the Group held put options, which place no ceiling on sales prices, giving coverage for daily volumes of 750 barrels of oil and 40,000 therms per day (4,000 mscf/day) of gas at average floor prices of US\$35 per barrel and 38 pence per therm respectively to end Q1 2017.

In January 2017, the Group acquired gas put options giving cover across Q2 and Q3 2017, and oil put options for Q2 2017. Gas is covered for 40,000 therms a day at 40p/therm throughout Q2 2017, and 38p/therm for Q3 2017 for an average of 31,000 therms a day. Q2 2017 oil cover is in place at 750 barrels a day for US\$50/bbl.

### Fair values of financial assets and liabilities

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

### Capital management

The primary objective of the Group's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration and development expenditure, and to safeguard the entity's ability to continue as a going concern and create shareholder value. At 31 December 2016, capital employed of the Group amounted to US\$85.1 million (comprised of US\$85.1 million of equity shareholders' funds and US\$nil million of borrowings), compared to US\$74.2 million at 31 December 2015 (comprised of US\$74.2 million of equity shareholders' funds and US\$nil of borrowings).

At 31 December 2016, capital employed of the Company amounted to US\$85.1 million (comprised of US\$85.1 million of equity shareholders' funds and US\$nil million of borrowings), compared to US\$74.2 million at 31 December 2015 (comprised of US\$74.2 million of equity shareholders' funds and US\$nil million of borrowings).

## 25. Equity Share Capital

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

The share capital of the Company comprises one "A" share of £50,000 and 263,679,039 ordinary shares of US\$0.10 each. The "A" share has no special rights.

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

<b>Allotted, issued and fully paid:</b>				
<b>Group</b>	Number	Share capital US\$000	Share premium US\$000	Total Share capital US\$000
As at 1 January 2015	250,179,040	25,108	202,850	227,958
Shares issued (i)	13,500,000	1,350	-	1,350
As at 31 December 2015 and 2016	263,679,040	26,458	202,850	229,308

<b>Allotted, issued and fully paid:</b>				
<b>Company</b>	Number	Share capital US\$000	Share premium US\$000	Total Share capital US\$000
As at 1 January 2015	250,179,040	25,108	167,578	192,686
Shares issued (i)	13,500,000	1,350	-	1,350
As at 31 December 2015 and 2016	263,679,040	26,458	167,578	194,036

- i) On 4 June 2015, the Company issued 13,500,000 ordinary shares at nominal value of US\$0.10 each to BP as part of the acquisition of an 18% interest in UK blocks 23/26a (Area B) and 23/26b (Area B) containing the Erskine field. No cash proceeds were received by the Company in respect of the ordinary shares issued.

As at 5 April 2017 the issued voting share capital of the Company is 263,679,039 ordinary shares and one "A" share.

## 26. Additional Cash Flow Information

### Analysis of Group net cash

#### Year ended 31 December 2016

	<b>1 January 2016 US\$000</b>	<b>Cash flow US\$000</b>	<b>Non-cash movements US\$000</b>	<b>31 December 2016 US\$000</b>
Cash	14,159	(11,103)	(197)	2,859
Short-term deposits	7,443	7,031	(740)	13,734
	<u>21,602</u>	<u>(4,072)</u>	<u>(937)</u>	<u>16,593</u>

#### Year ended 31 December 2015

	<b>1 January 2015 US\$000</b>	<b>Cash flow US\$000</b>	<b>Non-cash movements US\$000</b>	<b>31 December 2015 US\$000</b>
Cash	7,893	6,583	(317)	14,159
Short-term deposits	2,000	5,652	(209)	7,443
	<u>9,893</u>	<u>12,235</u>	<u>(526)</u>	<u>21,602</u>

### Analysis of Company net cash

#### Year ended 31 December 2016

	<b>1 January 2016 US\$000</b>	<b>Cash flow US\$000</b>	<b>Non-cash movements US\$000</b>	<b>31 December 2016 US\$000</b>
Cash	6,287	(5,927)	(28)	332
Short-term deposits	7,443	7,031	(740)	13,734
	<u>13,730</u>	<u>1,104</u>	<u>(768)</u>	<u>14,066</u>

#### Year ended 31 December 2015

	<b>1 January 2015 US\$000</b>	<b>Cash flow US\$000</b>	<b>Non-cash movements US\$000</b>	<b>31 December 2015 US\$000</b>
Cash	7,447	(926)	(234)	6,287
Short-term deposits	2,000	5,652	(209)	7,443
	<u>9,447</u>	<u>4,726</u>	<u>(443)</u>	<u>13,730</u>

## 27. Share-Based Payments

### Share Option Plans

Following a group reorganisation in 2005, the Company established an option plan (the "Serica 2005 Option Plan") to replace the Serica Energy Corporation Share Option Plan (the "Serica BVI Option Plan"). There are no options outstanding under the Serica BVI Option Plan, nor can further options be granted under the Serica BVI Option Plan. No further options will be granted under the Serica 2005 Option Plan as the ability to do this expired on this plan's 10<sup>th</sup> anniversary in November 2015.

A new plan, the Serica Energy plc Company Share Option Plan ("Serica CSOP"), was approved for adoption at the Company's AGM in June 2016. This will govern all future grants of options by the Company to Directors, officers, key employees and certain consultants of the Group. The Directors intend that the maximum number of ordinary shares which may be utilised pursuant to the Serica CSOP will not exceed 10% of the issued ordinary shares of the Company from time to time in line with the recommendations of the Association of British Insurers.

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

As at 31 December 2016, the Company has granted 24,332,460 options under the Serica 2005 Option Plan, 8,466,330 of which are currently outstanding. 400,000 of these options were granted to a consultant subject to performance conditions, and the 2,500,000 options granted to a director in July 2015 were all awarded at prices higher than the current market price at the time of the grant to establish firm performance targets.

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain market conditions) to estimate the fair value of share options at the date of grant. There are no cash settlement alternatives. The estimated fair value of options is amortised to expense over the options' vesting period. US\$90,000 has been charged to the income statement in continuing operations for the year ended 31 December 2016 (2015 – credit of US\$9,000) and a similar amount credited (2015 debited) to the share-based payments reserve, classified as 'Other reserve' in the Balance Sheet. The income statement credit of US\$9,000 in 2015 consisted of a charge of US\$174,000 offset by a credit of US\$183,000 which arose following the forfeiture by two executive directors of certain share options that had not fully vested. A charge of US\$22,000 (2015 – credit of US\$136,000) of the total continuing operations charge was in respect of key management personnel (defined in note 10).

No options were granted in 2016. The options granted in 2015 were consistently valued in line with the Company's valuation policy. Assumptions made included a weighted average risk-free interest rate of 3%, no dividend yield, a weighted average expected life of three years, and a volatility factor of expected market price of in a range from 50-70%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The weighted fair value of options granted during 2015 was £0.03.

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

<b>Serica BVI option plan</b>	<b>2016 Number</b>	<b>2016 WAEP Cdn\$</b>	2015 Number	2015 WAEP Cdn\$
Outstanding as at 1 January	-	-	700,000	1.11
Expired during the year	-	-	(600,000)	1.00
Forfeited during the year	-	-	(100,000)	1.80
Outstanding as at 31 December	-	-	-	-
Exercisable as at 31 December	-	-	-	-

<b>Serica 2005 option plan</b>		<b>£</b>		<b>£</b>
Outstanding as at 1 January	8,601,330	0.30	10,680,460	0.44
Granted during the year	-	-	4,000,000	0.13
Forfeited during the year	-	-	(5,193,940)	0.44
Expired during the year	(135,000)	1.035	(885,190)	0.50
Outstanding as at 31 December	8,466,330	0.28	8,601,330	0.30
Exercisable as at 31 December	4,016,330	0.33	3,451,330	0.42

The weighted average remaining contractual life of options outstanding as at 31 December 2016 is 6.4 years (2015: 7.3 years).

There are no outstanding options for the Serica BVI option plan. For the Serica 2005 option plan, the exercise price for outstanding options at the 2016 year end ranges from £0.07 to £1.04 (2015: £0.07 to £1.04).

As at 31 December 2016, the following director and employee share options were outstanding:

<b>Expiry Date</b>	<b>Amount</b>	<b>Exercise cost £</b>
January 2017	60,000	61,200
May 2017	210,000	218,400
March 2018	318,000	238,500
January 2020	1,155,000	785,400
April 2021	50,000	15,685
January 2022	1,123,330	240,112
October 2022	400,000	116,000
January 2023	300,000	81,750
November 2023	400,000	72,000
January 2024	450,000	58,500
June 2025	1,500,000	99,000
July 2025	1,000,000	120,000
July 2025	1,000,000	180,000
July 2025	500,000	120,000

In January 2017, 60,000 share options under the Serica 2005 Option Plan expired.

## 28. Commitments under Operating Leases

### Operating lease agreements where the Group is lessee

At 31 December 2016 the Group has entered into commercial leases in respect of the rental of office premises and office equipment.

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

	<b>Group</b>		<b>Company</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Not later than one year	14	13	-	-
Later than one year and not later than five years	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	14	13	-	-

In March 2015, the Group entered into a new two-year office operating lease on smaller premises with a minimum commitment period until February 2016, which expired in March 2017. In March 2017, the Group entered into an extension of this operating lease with a minimum commitment of a rolling three-month period.

### Operating sublease agreements where the Group is lessor

In January 2013 the Group entered into an operating sublease for part of its UK office, initially to March 2014 but extended until March 2015 when it expired.

## 29. Capital Commitments and Contingencies

At 31 December 2016, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation assets amounted to US\$nil for the Group and US\$nil for the Company (2015: US\$nil and US\$nil respectively).

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

### Non-Erskine commitments

The Group has no significant exploration commitments.

In the UK East Irish Sea, the Group's carry on the exploration well on the Doyle prospect is subject to a cap although no overrun is currently forecast. The Group has no significant commitments on its other exploration licences.

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

### Erskine field commitments

The Erskine field acquisition has brought certain financial commitments. Net revenues from the Erskine field are expected to assist Serica in building its cash resources over coming months and years, but the Group has obligations to pay to BP two remaining tranches of US\$2.775 million (excluding interest) cash consideration on 1 July 2017 and 1 July 2018 respectively.

### *Other*

The Group occasionally has to provide security for a proportion of its future obligations to defined work programmes or other commitments. No such obligations and cash collateral existed as at 31 December 2015 or 2016.

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

### **30. Related Party Transactions and Transactions with Directors**

During the prior year ended 31 December 2015, a total sum of £77,785 was paid by the Company for consultancy services provided on behalf of Antony Craven Walker. All sums paid by the Company were reimbursed by Antony Craven Walker and no net expense therefore incurred.

There are no other related party transactions, or transactions with Directors that require disclosure except for the remuneration items disclosed in the Directors Report and note 8 above. These disclosures include the compensation of key management personnel.

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

## Group Proved plus Probable Reserves – Unaudited

	United Kingdom		Total	Total	Total
	Oil	Gas	Oil	Gas	Oil & gas
	mmbbl	bcf	mmbbl	bcf	mmboe
At 1 January 2015	-	-	-	-	-
Acquisitions	2.7	12.6	2.7	12.6	4.8
Production	(0.3)	(1.8)	(0.3)	(1.8)	(0.6)
At 31 December 2015	2.4	10.8	2.4	10.8	4.2
Revisions	-	1.4	-	1.4	0.2
Production	(0.3)	(1.8)	(0.3)	(1.8)	(0.6)
At 31 December 2016	2.1	10.4	2.1	10.4	3.8
Proved developed	1.0	5.3	1.0	5.3	1.9
Probable developed	1.1	5.1	1.1	5.1	1.9
At 31 December 2016	2.1	10.4	2.1	10.4	3.8

Proved and probable reserves are based on independent reports prepared by consultants Netherland, Sewell & Associates (for the Erskine Field in the UK North Sea) in accordance with the reserve definitions of the Canadian Oil and Gas Evaluation Handbook. Gas reserves at 31 December 2015 and 2016 have been converted to barrels of oil equivalent using a factor of 6.0 bcf per mmboe for Western Europe (Erskine field reserves) on the basis of a nominal gas calorific value of 1,000 BTU per cubic foot.

In 2014, the directors of Serica believed that in the oil price environment at that time, it was appropriate for Columbus field reserves to be properly considered as Contingent Resources rather than the previous categorisation as Reserves. It was therefore not considered cost effective or necessary to obtain an updated report for Columbus at the end of 2014. The directors continue to believe the categorisation of Contingent Resources is still appropriate as at 31 December 2015 and 2016.