Serica Energy plc

("Serica" or the "Company")

Results for the year ended 31 December 2022

London, 13 April 2023 - Serica Energy plc (AIM: SQZ), a British independent upstream oil and gas company with operations in the UK North Sea today announces its audited financial results for the year ended 31 December 2022. The results are included below and copies are available at www.serica-energy.com and www.sedar.com.

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

"2022 was another year of outstanding progress for Serica. There was strong growth in production volumes, a significant upgrade to reserves and increased profitability at all levels.

Serica’s two-pronged strategy is to invest in our high-quality portfolio of UK North Sea assets to unlock value and prolong their life whilst continuing to target future acquisition opportunities. It is to be hoped that the Government will ensure that the fiscal terms applying in the UK North Sea make the UK competitive for future energy investment.

We have now completed the acquisition of Tailwind which has boosted production and reserves and provides a number of short-cycle growth opportunities for the Company.

I’m delighted that we can recommend an increased final dividend of 14p per share. The continued strength of the Company underpins the intention to maintain or increase the dividend in future years.”

2022 Summary

- Profits increased at all levels with a 93% increase in operating profit and a 124% increase in profit after tax, boosted by the end of BKR net cash flow sharing, increased production volumes and higher commodity prices.
- Average net production of 26,200 boe per day compared to 22,200 boe per day for 2021, an 18% increase.
- Serica 2P reserves increased to 74.9 million boe effective 1 January 2023 (1 January 2022: 62.2 million boe) with Group 2022 production replaced more than two-fold.
- Acquisition of Tailwind Energy Investments Limited announced on 20 December 2022 and completed post year-end on 23 March 2023.
- Final 2022 dividend of 14p per share recommended, bringing 2022 full year total to 22p per share[1] compared to 9p per share for 2021.

Financial

- Average 2022 realised sales price, after hedging, of approx. US$104 per boe (2021: US$77 per boe) and average operating cost of US$15.7 per boe (2021: US$16.5 per boe).

- Operating profit of £476.2 million (2021: £246.1 million) after:
  - realised losses of £45.4 million on 2022 gas price hedging (2021: £56.6 million)
  - unrealised gains of £20.9 million on hedge valuations (2021: losses £74.6 million)
  - E&E asset write-off of £82.7 million related to North Eigg exploration well.

- Profit after tax of £177.8 million (2021: £79.3 million) after current tax charges of £277.7 million (2021: £15.8 million) and non-cash deferred tax provisions of £32.7 million (2021: £40.0 million).

- Net cash inflow from operating activities of £560.1 million (2021: £157.6 million) including:
  - £91.0 million net release of cash security held by gas price hedge counterparties (2021: net payments lodged £113.6 million)
  - £143.5 million cash taxes paid in 2022 (2021: nil). Further £140 million of 2022 tax charges paid in early 2023.

- Closing cash at 31 December 2022 of £432.5 million (2021: £103.0 million) plus a further £24.3 million of cash security lodged with gas price hedge counterparties (2021: £115.4 million). Remaining cash hedge security fully released post year end. Closing cash at 31 December 2022 is after:
  - £97.1 million exploration and development spend (2021: £52.2 million)
  - £93.9 million final BKR cash flow related payments (2021: £81.3 million)
  - £46.3 million dividends paid (2021: £9.4 million).

- Following the 2022 year end the Directors became aware that a filing in respect of certain dividends paid in 2022 had not been made as required under the Companies Act. Accordingly a resolution will be proposed at this year's AGM to resolve this.

Operational

- Updated independent audit of field reserves reported Serica's share of estimated remaining 2P reserves as 74.9 million boe effective 1 January 2023:
  - represents net upward revision of about 250% of 2022 production compared to 62.2 million boe reported as at 1 January 2022
  - result of projected deferral of Bruce hub cessation of production until 2035, ongoing interventions on Bruce wells and plans for further drilling.

- Initial Light Well Vessel Intervention campaign conducted in mid-2022 to boost production from two Bruce wells with further campaigns planned:
  - M1 re-entered and rates increased from 400 boe/d to 1,800 boe/d in July after successful scale removal, water shut-off and perforation/reperforation
  - similar programme then carried out on M4 increasing rates from 450 boe/d to 2,400 boe/d.

- North Eigg HPHT exploration well successfully drilled to 16,728 feet - encountered hydrocarbons in sub-commercial quantities and well has been suspended pending analysis of data and assessment of any further potential in the area.

ESG

- Reduced carbon intensity on Bruce platform by 8% compared to 2021 through closer emissions monitoring, improved performance and greater production efficiency.
- Developed and submitted Bruce Emissions Reduction Action Plan (ERAP), demonstrating a pathway to meeting the North Sea Transition Deal emissions reduction targets.
- Supported new technology projects such as energy from waves, eco-friendly concrete, alternative fuels, arial methane monitoring and flare gas combustion efficiency.

Outlook

- Tailwind acquisition completed in late March 2023 and is already contributing strongly to Serica's combined reserves growth and production rates as well as better diversifying the Group's offtake routes and commodity balance and offering a range of near term investment options:
    - updated Tailwind reserves report shows increase in 2P reserves from 41.8 million boe at 1 January 2022 to 55.5 million boe at 1 January 2023, replacing 2022 production four-fold
    - Gannet GE04 well onstream in February 2023 at initial production rates above 10,000 boe/d and exceeding pre-drill estimates
    - net production for the combined Serica and Tailwind portfolios averaged 46,800 boe/d during Q1 2023
    - preparations during 2023 for a four-well Triton area drilling campaign in 2024 starting with the Gannet GE05 well
    - integration plans on track, including sharing best practices, prioritising work programmes and high grading investment opportunities.
- Combined Group production guidance range for 2023 maintained at 40,000 – 47,000 boe/d on a full year proforma basis:
    - combined operating costs to remain below $20 per boe
    - Price hedging under borrowing facility for oil production acquired from Tailwind
        - 2023 from 23 March, approx. 11,000 bbl/d @ average $58/bbl
        - 2024 approx. 4,000 bbl/d @ average $74/bbl
- A second light Well Intervention Vessel campaign to enhance production on BKR wells planned for the summer with a further campaign expected in 2024.
- Subject to shareholder approval at the AGM, a final 2022 dividend of 14p per share will be payable on 27 July 2023 to shareholders registered on 30 June 2023 with an ex-dividend date of 29 June 2023.
- Completion of the acquisition of Tailwind puts the Company in a strong position to maintain and grow its dividend. Following the introduction of an interim dividend in 2022, future dividends will continue to be paid in two annual instalments determined by the financial performance and cash flow generation of the business.

A conference call for sell-side analysts will be held later today at 9:30 am (UK time). If you would like to participate, please email serica@vigocomms.com. A copy of the accompanying presentation can be found on our website: www.serica-energy.com.

Investor Presentation

Mitch Flegg will provide a live presentation relating to the full year results via the Investor Meet Company platform on 24 April 2023 at 4.00pm BST.

The presentation is open to all existing and potential shareholders. Questions can be submitted pre-event via the Investor Meet Company dashboard up until 9.00am the day before the meeting or at any time during the live presentation.

Investors can sign up to Investor Meet Company for free and add to meet Serica Energy plc via:

https://www.investormeetcompany.com/serica-energy-plc/register-investor

Investors who already follow Serica on the Investor Meet Company platform will automatically be invited

Note:

[1] The interim dividend was paid to shareholders on the register at that time (approx. 273 million shares) and the final dividend will be paid to the shareholders on the register on 30 June 2023 (expected to be approx. 381 million shares).

Regulatory

This announcement is inside information for the purposes of Article 7 of Regulation 596/2014 as retained in the UK pursuant to S3 of the European Union (Withdrawal) Act 2018.

The technical information contained in the announcement has been reviewed and approved by Fergus Jenkins, VP Technical at Serica Energy plc. Mr. Jenkins (MEng in Petroleum Engineering from Heriot-Watt University, Edinburgh) is a Chartered Engineer with over 25 years of experience in oil & gas exploration, development and production and is a member of the Institute of Materials, Minerals and Mining (IOM3) and the Society of Petroleum Engineers (SPE).

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CHAIRMAN'S STATEMENT

Dear Shareholder

Last year I wrote to you against the backdrop of international turmoil following Russia's invasion of Ukraine and the consequential major disruptions to energy supply. This resulted in significant volatility in energy prices throughout the year which saw UK day-forward gas prices peak for a short period in August 2022 at over £6/therm. Since then they have fallen and are now back to the level of two years ago, approximately 80% lower than the level reached last August.

In the meantime, however, the Government has raised taxes on the offshore industry to a level which does not reflect current prices or provide for a price floor level. This has impacted the smaller companies disproportionately far more than the international companies and is likely to become unsustainable given that prices are now very materially below the levels envisaged when the tax rises were introduced. Combined, this has had a material effect on the share prices of companies such as Serica and puts a question mark over the financing of many North Sea projects.

The important role of the smaller UK upstream companies operating in the North Sea, many of them British, is to optimise the production of remaining North Sea reserves for the ultimate benefit of the UK at a time when the provision of energy security has never been more important. But to do this needs a stable fiscal environment in which we can plan and operate with taxes at a level commensurate with the risks that we take. Setting taxes on profits at the current 75% level without any provision for falling prices drives away the financing which is required.

It is to be hoped that the Government will review its current policy and derive a new basis upon which companies like Serica can thrive and show the innovation which is needed to bring the full benefit of offshore resources to the UK in parallel with the energy transition efforts being made by the major companies.

Notwithstanding the background against which we have to operate, Serica has been able to add value in the four years since acquiring the Bruce, Keith and Rhum (BKR) assets in late 2018 and taking over as operator. Our efforts to-date had already extended the decommissioning date to the end of this decade, illustrating the innovation and technical skill of the smaller companies. Our teams in Aberdeen and offshore are now working on projects to extend the life of these assets still further and optimise producible reserves in the right fiscal environment and this is reflected in our latest reserves report.

As a result of the careful management of our financial resources Serica remains strongly financed. 2022 reflects the first year following the end of the BKR earn-in period which now enables us to derive the full benefit of our interest in BKR. The benefits of the resultant cash flow uplift can be seen in our results. Although we found gas in the North Eigg well which will require further evaluation we have taken full provision for the well to reflect the uncertain outlook. The resulting group profit before taxation for the year after this provision amounts to £488 million against the prior year £135 million. After providing for the impact of materially increased taxes, £278 million of which are current cash payments, after tax profit was £178 million against prior year £79 million.

We are committed to a dividend policy which reflects the underlying performance of the Company and which provides a good return to shareholders in an uncertain environment whilst also leaving room for investment in continuing asset growth. In November we paid an interim dividend of 8 pence per share. Subject to approval of shareholders at the Annual General Meeting in June 2023, we are proposing a final dividend of 14 pence per share, an increase on last year and bringing the total dividend for the year to 22 pence per share.

We continue to look for ways to increase our opportunity for value accretion. At the turn of the year we announced our intention to acquire Tailwind Energy Investments Ltd. We have made it clear for some time that over-reliance on a single asset, BKR, whilst showing considerable ongoing potential, is not a sensible policy and the Tailwind transaction provides us with the opportunity to achieve better balance, both from a portfolio perspective and from a commodity perspective. This should provide us with the strength to manage uncertain times whilst also adding value for shareholders and is structured in a way to maintain the full strength of our balance sheet.

Shareholders approved the Tailwind acquisition at an Extraordinary General Meeting held in January and, following receipt of all conditions precedent, we announced completion of the transaction in March. Serica is now a broader spread company with interests in two North Sea hubs, one of which it operates, and better exposure to an oil/gas mix. The acquisition also brings a portfolio of near term investment opportunities as well as strong reserves and production growth. We believe that the transaction is fully compatible with our ESG objectives and Serica is optimistic that the full benefit of the combination will start to come through this year.

As part of building the company to the scale and size that we now are, we have also been looking to strengthen and broaden the Board. I am delighted that Jérôme Schmitt, who joined the Board in mid-2022, and Michiel Soeting, who joined in February 2023, are providing us with the benefit of their knowledge and experience. Both bring significant financial and strategic insight to the Board. Following the Tailwind acquisition we also welcome Rob Lawson and Guillaume Vermersch who will further strengthen and broaden the Board and bring additional and complementary experience.

Finally, my own role. I have been on the Board since the Company started as a small exploration company operating in the North Sea and South East Asia. I have seen it through the transition to the company that it is today, a very significant British-based upstream operator with material operations in the North Sea and generating good returns to shareholders. I am proud of that achievement and am proud of the team that has made it possible. I am sure that all shareholders would like me to thank them. The Company has a very strong team, a strong balance sheet, a very material production base and very strong credentials, all of which put it in a good position for future success.

In line with good corporate governance practice, due to my length of service I shall be standing down from the Chair and the Board at the end of our forthcoming Annual General Meeting and am delighted that David Latin has agreed to take over as Chair from that date. David has been on the Board since the end of 2021 and brings enormous experience to the Company both as an Independent Director and shortly as Non-Executive Chairman. David has over 30 years' working in the upstream sector including senior roles at BP plc and the OMV Group where he led growth of a significant business in the North Sea, Africa and Australasia. More recently he has developed his knowledge of private equity investing as a founder of First Alpha Energy Capital and of the energy transition via venture capital backed Talaria Technology. With David in the Chair and a strong Board and Executive Team I am sure that the Company is in good hands.

Tony Craven Walker
Chairman
12 April 2023

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 2022.

References to the "Company" include Serica and its subsidiaries where relevant. All figures are reported in GB Sterling ("£") unless otherwise stated.

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

Serica is an independent oil and gas company with production, development and exploration interests in the UK Continental Shelf.

CEO's REVIEW

2022 has been another year of outstanding achievement for Serica. Net production for the year was 26,200 boe/d an increase of some 18% on the previous year. This increase is further illustration of the successful strategy of investing in our assets in order to both add value and prolong their lives. The Company still has a strong balance sheet with significant cash and limited decommissioning liabilities. This has allowed us to make these investments despite the backdrop of volatile commodity prices and an unstable fiscal regime.

Two major capital growth projects were executed during the year. Our first Light Well Intervention Vessel ("LWIV") campaign was carried out in the second quarter of the year with a scope of production re-instatement, well surveillance, production enhancement and well integrity activities on a number of subsea wells tied back to the Bruce platform. Some of these wells had not been re-entered for over 20 years. The initial well (Bruce M1) was re-entered for the first time since 1998. After a successful scale removal and water shutoff, a significant reperforation and new perforation campaign was executed and the well returned to production. Production rates from the well increased from around 400 boe/d before intervention to over 1,800 boe/d in July 2022.

A similar programme was followed on the second well (Bruce M4) and production rates for the well were increased from around 450 boe/d to over 2,400 boe/d.

The second project was the North Eigg exploration well which was drilled in the second half of the year. Although the well was drilled safely and successfully encountered hydrocarbons, the reservoir sands were thinner than prognosed and so the hydrocarbons found are not of commercial quantities. The data acquired from the well is being analysed to determine if a future sidetrack location can be designed to evaluate the volumes of hydrocarbon in this new discovery. The well has been suspended prior to future potential re-entry and sidetrack.

In 2022 Serica had gas price hedging in place covering approximately one quarter of gas sales (or around one fifth of combined oil and gas production). These hedges were in the form of swaps and equivalent fixed price instruments. The majority (approx. 80%) of Serica's oil and gas production was unhedged allowing the Company to benefit from the historically high gas prices and strong oil prices. During the year, the highly erratic gas futures market had a huge impact on hedge security requirements which at one point stood at over £300 million. These security requirements fell throughout the second half of the year as Serica's remaining gas price hedges continue to expire and stood at £24 million at year end.

On 26 May 2022 the UK government announced the introduction of an Energy Profits Levy (EPL), a new 25% levy on profits arising on or after that day. On 17 November, the rate was increased to 35%, bringing the combined tax rate to 75%. However, incentives to reinvest in additional oil and gas reserves offer Serica the opportunity to mitigate its impact. Therefore, we will maintain our ongoing investment in near term opportunities from our existing portfolio and look for further opportunities where they can be justified under the current tax regime.

Against this background the Company is steadily increasing its returns to shareholders, a key element of the strategy. In November we paid an interim dividend of 8 pence per share. Subject to approval of shareholders at the Annual General Meeting in June 2023, we are proposing a final dividend of 14 pence per share, an increase on last year and bringing the total dividend for the year to 22 pence per share.

In December we announced that Serica had entered into an agreement to acquire the entire issued share capital of Tailwind Energy Investments Ltd ("Tailwind") from Tailwind Energy Holdings LLP. The transaction achieves our strategic objective of materially increasing the scale and diversity of our UKCS portfolio of assets. The Tailwind portfolio also brings multiple organic investment opportunities for further material near-term growth in reserves and production. Following this transaction, Serica will retain its competitive strengths of a strong balance sheet, positive cash flow and low decommissioning cost obligations. Moreover, through the introduction of Mercuria as a new strategic investor, we will be differentially positioned to take advantage of the opportunities we expect to arise through industry consolidation, the North Sea Transition Deal and potentially overseas.

As announced on 5 April 2023, Serica has commissioned a new Competent Person's Report ("CPR") effective 1 January 2023 which included a significant upgrade to net 2P reserves estimates. Our net 2P reserves stood at 62.2 million boe at 1 January 2022 and our 2022 net production was 8.3 million boe after adjustment for fuel gas but our net 2P reserves at 1 January 2023 stand at 74.9 million boe with revisions having replaced more than twice the level of 2022 production. This achievement is further evidence that Serica's long-term strategy is delivering value.

Similarly, a CPR was commissioned for the Tailwind Reserves effective 1 January 2023. For the Tailwind portfolio net 2P reserves stood at 41.8 million boe at 1 January 2022 and 2022 net production was 4.2 million boe but net 2P reserves at 1 January 2023 stand at 55.5 million boe. Taking the two portfolios together, upward net revisions of 2P reserves were more than three times the amount of production in 2022.

Our industry is essential for the economic and environmental prosperity of our country. Our brilliant, skilled people work tirelessly to produce the energy from offshore locations around Britain that powers not just our homes, transport and industry, but the everyday products we need to live well.

We are proud to make a huge contribution to the UK economy. Serica alone has paid £284 million in tax to the UK Exchequer since the start of 2022 and in 2022/23 alone our upstream industry as a whole will add at least £28bn to the UK economy. In addition to its pivotal role in securing the energy security of the country, the upstream sector has a sizeable impact on the UK balance of payments and provides 215,000 skilled jobs across the length and breadth of the country.

The industry is committed to delivering Net Zero by 2050, but alongside expanding into energy sources like wind and hydrogen, the UK will continue to need oil and gas. The Climate Change Committee concludes that oil and gas will meet 50% of the UK's energy needs in the mid-2030s and will still provide 22% in 2050. Around 40% of the UK's electricity comes today from gas fired power stations and in 2022, domestic gas production met 44% of the UK's total needs reducing the requirement for imports.

Finally, I would like to recognise the outstanding performance of our 180 strong workforce who have again exceeded expectations and I welcome the new staff who have joined us from Tailwind. I would also like to acknowledge the incredible contribution of Tony Craven Walker who has today announced that he will be standing down as Chair. Tony has been instrumental in the development of the Company from its early stages through to its establishment at one of the UK's top ten producers, and I would like to personally thank him for the experience and guidance that he has provided to me and the entire management team. I look forward to working with the incoming Chair, Dave Latin who I have known for many years.

I believe we have an outstanding workforce, management team and Board and a combination of skills that will drive the company even further to create more value for shareholders.

Mitch Flegg
Chief Executive Officer
12 April 2023

ACQUISITION OF TAILWIND ENERGY INVESTMENTS LTD

After the end of the year, on 23 March 2023 Serica Energy completed the acquisition of Tailwind Energy Investments Ltd, a privately owned independent oil and gas company with assets in the UK North Sea. As part of the transaction, Mercuria - an investor in Tailwind - became a strategic investor in Serica.

Tailwind was formed in 2016. Through a combination of acquisitions, production enhancements and development of new fields, executed by a small and expert team of oil and gas professionals, it built a portfolio of upstream assets situated in the UK North Sea. At the end of 2022 this portfolio had 2P reserves of 55.5 million boe, with a rising production profile that reached an average 23,300 boe/d in December 2022.

The assets acquired by Serica with the Tailwind transaction comprise primarily a mix of operated and non-operated producing fields tied-back to the Triton FPSO in the UK Central North Sea. Tailwind's interests in producing fields also include 100% in the Orlando field located in the UK Northern North Sea and a non-operated 25% in the Columbus field in the UK Central North Sea (operated by Serica).

The acquisition of Tailwind was aimed at achieving Serica's longstanding objective to have a more diverse and broadly based UKCS portfolio of producing fields, with material reserves and value upside potential, coupled with a more balanced exposure to commodity price risk. The transaction represents substantial progress towards this objective with the number of producing fields increased from five to eleven, mainly centred around two hubs (Bruce and Triton), a substantial increase in 2P reserves (combined 130.4 million boe as at 31 December 2022) and a balance of gas and oil production.

The acquisition has also added considerably to the organic investment opportunities in Serica's portfolio. Rig slots have been reserved in order to drill infill wells on the Bittern, Gannet E, Guillemot North West and Evelyn fields in 2024; all of which are existing tie-backs to the Triton FPSO. The potential developments of the Belinda field as a tie-back to the Triton FPSO and the Mansell field, situated in the UK Northern North Sea, are being evaluated. All these activities will continue under the ownership of Serica, whose team has been supplemented by the addition of Tailwind staff.

These substantial enhancements to Serica's portfolio of upstream assets have been achieved while maintaining the Company's financial strength. Moreover, Serica retains a relatively low level of decommissioning liabilities largely as a result of foundational transactions by both Serica and Tailwind in the past involving the sellers retaining such obligations. Serica's strong balance sheet, allied with expected net cash inflows from the enlarged portfolio, provides a basis for continued dividends to shareholders, investment in the existing portfolio and further acquisitions. Very few UKCS-focused independent oil and gas companies share this same combination of attributes.

As described elsewhere in the Annual Report and Serica's forthcoming updated ESG Report, making a positive contribution to the North Sea Transition Deal is a key objective. Serica will use its operating experience and support the infrastructure operators of the Tailwind assets to reduce emissions. The longer-term outlook depends in part on investments to reduce emissions from the Bruce and Triton hubs. As operator of the Bruce hub and co-owner of the Triton FPSO, Serica is engaged in the development and implementation of GHG Emissions Reduction Action Plans for both facilities.

REVIEW OF OPERATIONS

Production

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

Serica operates the Bruce field and facilities consisting of three bridge-linked platforms, wells, pipelines and subsea infrastructure. The platforms contain living quarters, reception, compression, power generation, processing and export facilities and a drilling derrick that is currently mothballed. There is also the subsea Western Area Development (WAD) that produces from the edges of the Bruce area.

Bruce production is predominantly gas which is rich in liquids. Gas is exported through the Frigg pipeline to the St Fergus terminal, where it is separated into sales gas and NGL's. Oil is exported through the Forties Pipeline System to Grangemouth.

In 2022, activity returned to pre-Covid levels on the platform as national controls were relaxed. A 14-day maintenance campaign focussing on integrity works was executed in the summer. During this campaign we completed the removal of the redundant caisson that had interrupted production in 2020. In addition, a Bruce platform well work campaign was successfully executed in Q3. Operations included well integrity maintenance, production logging, adding perforations to the upper producing zones and water injectivity trials.

In addition, the first vessel-based interventions (LWIVs) of Serica's ownership took place on two of the WAD wells, performing logging, maintenance interventions, water shut-off, scale removal and addition of new perforations. Both interventions were successful and have helped define future targets for campaigns in 2023 and 2024.

Prior to carrying out the intervention on the WAD wells, maintenance on the field electrical supply was carried out including replacement of master control system (MCS) modules and power leads to protect production from the WAD area. Further work is planned ahead of the 2023 intervention campaign.

Bruce field production in 2022 averaged approx. 6,900 boe/d (2021: 6,700 boe/d) net to Serica. Full year production reliability was 94%.

The latest independent estimate of reserves by RISC Advisory estimated 2P reserves of 31.8 million boe net to Serica as of 1 January 2023 (2022: 15.8 million boe). This increase reflects the benefits from future planned well interventions and from field life extension beyond 2030.

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

Keith is an oil field produced by one subsea well tied back to the Bruce facilities and requires very little maintenance. In normal operation Keith produces at a relatively low rate but provides a low-cost contribution to the oil export from Bruce. During 2022 work was undertaken on the electrical supply to Keith which discovered a fault in the system. The system was isolated and production shut in ahead of a replacement being fitted in Q3 2023. This, in combination with a well intervention planned for Q2 2024, is expected to restore the field to sustained production.

The latest independent estimate of reserves by RISC Advisory estimated 2P reserves of 2.4 million boe net to Serica as of 1 January 2023 (2021: nil). These reserves are recognised based upon the planned 2023 and 2024 programmes.

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

The Rhum field is a gas condensate field producing from three subsea wells tied into the Bruce facilities through a 44km pipeline. Rhum production is separated into gas and oil and exported to St Fergus and Grangemouth along with Bruce and Keith production. Rhum gas has a higher CO_2 content than Bruce gas and so is blended with Bruce gas before leaving the offshore facilities.

In February 2022, the master control system (MCS) module supplying power to the Rhum wells failed in service shutting down the field. A vessel was sourced and the spare MCS was fitted restoring production after an 18-day outage. The recovered MCS has been overhauled to ensure that a spare remains available. Also during 2022 the Rhum separator on the Bruce topsides was debottlenecked to allow more flexibility optimising production from all three Rhum wells.

Rhum field production in 2022 averaged in excess of 15,700 boe/d net to Serica. Full year production reliability was 80%.

The latest independent estimate of reserves by RISC Advisory estimated 2P reserves of 36.4 million boe net to Serica as of 1 January 2023 (2022: 37.2 million boe). This represents an increase in reserves after 2022 production is taken into account which arises from the extension of field life into the 2030s.

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

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

The Erskine field has five production wells and produces oil and gas over the Erskine normally unattended installation, which is transported to Lomond via a multiphase pipeline and processed on the Lomond platform. Then condensate is exported down the Forties Pipeline System via the CATS riser platform at Everest and gas is exported via the CATS pipeline to the CATS terminal at Teesside.

In March 2022 an intervention to replace the downhole safety valve on well W5 was successfully carried out and a 22-day maintenance outage was carried out in July and August. An intervention to reinstate production from another well is being considered for late 2023 or early 2024.

Erskine production levels in 2022 averaged over 1,680 boe/d (2021: 1,650 boe/d). Operating efficiency in 2022 was 76%.

An updated independent audit of the Erskine field by RISC Advisory confirmed Serica's share of estimated 2P reserves at 3.3 million boe as of 1 January 2023 (2022: 3.4 million boe). The level of estimated remaining reserves at the beginning of 2023 matched those at the point of acquisition in June 2015 with all production in the intervening period effectively having been replaced through reserves upgrades to-date.

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

The Columbus Development is located in the UK Central North Sea and produces from a gas-condensate reservoir in the Forties Sandstone Formation. The development consists of a single horizontal well which runs along the central axis of the reservoir, drilled in the spring of 2021, and production commenced in November 2021.

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

Columbus had good initial test rates and started production in November 2021. Flow rates declined during the first few months of production and average Columbus production in 2022 was around 1,900 boe/d net to Serica. There were two planned outages during 2022, a 10-day field outage in January and an 18-day Shearwater maintenance outage in August.

Columbus reserves had a downward revision in 2022 due to analysis of data gathered from the first full year of production, and the subsequent interpretation of this data. The latest independent report of reserves, compiled by RISC Advisory, estimated 2P reserves of 1.1 million boe net to Serica as at 1 January 2023 (2022: 4.9 million boe) after allowing for production of 0.6 million boe during 2022.

UK Exploration

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

In December 2019, Serica was awarded the P2501 Licence as part of an out of round application; this comprises Blocks 3/24c and 3/29c and contains the North Eigg and South Eigg prospects. The official start date for the licence was 1 January 2020. The work commitment included drilling an exploration well within two years. The North Eigg prospect was high-graded for drilling, as it was believed to share many similarities with the nearby Rhum field, operated by Serica.

The 3/24c-6B North Eigg exploration well was drilled to a total depth of 16,728 feet in the Jurassic Heather formation and initial analysis indicated that, whilst the well encountered hydrocarbons, commercial quantities were not encountered by the wellbore. At the well location, the objective sands were thinner than had been prognosed, with a total of 16 feet of hydrocarbon-bearing sands discovered. These did however confirm the presence of hydrocarbons at a deeper depth than in the adjacent producing Rhum field.

A full suite of wireline logging data was acquired and analysis of this, along with results from core and fluid samples recovered is ongoing and will be used to update geological interpretations and models. The results of the interpretation will determine whether a future sidetrack of the well can be designed to better evaluate the volumes of hydrocarbon in this new discovery.

The well was left suspended in a way that would allow potential re-entry and sidetrack, or abandonment, as appropriate.

Skerryvore and Ruvaal– Blocks 30/12c (part), 30/13c (split), 30/17h, 30/18c and 30/19c (part), Serica Energy (UK) Limited: 20% working interest, Operator Parkmead

The Skerryvore and Ruvaal prospects lie in the Central North Sea, 60km south of the Erskine field. Potential for both sandstone and chalk reservoirs has been identified.

In September 2022, the P2402 Joint Venture elected not to proceed to the next phase of the Licence and that has therefore now been relinquished (effective date 30 September 2022).

Parkmead, CalEnergy and Serica decided to move ahead with P2400 (Skerryvore), though NEO chose to withdraw. Serica maintained its equity in the licence, staying at 20%. Both Parkmead and CalEnergy increased their shares to 50% and 30% respectively, absorbing the equity previously held by NEO (effective date 30 September 2022).

The next phase of the Licence includes a commitment well before October 2025 and the Joint Venture are targeting a well by the end of 2024.

Licence Awards in the UK 32nd licensing round

In December 2020 Serica was formally awarded four new blocks in the UK 32nd licensing round. Blocks 3/25b, 3/30, 4/26 and 9/5a are in the vicinity of the Bruce hub and include several leads which, if successful, could be tied back to Serica's existing infrastructure, or to other facilities in the region. The work programme does not include any commitment wells but is designed to mature these leads to drill-ready status. A decision whether to continue with the licences is due before the end of 2023. A decision about next steps therefore needs to be nominated to NSTA by the end of September 2023.

Group Proved plus Probable Reserves ("2P")

	Oil mmbbl	Gas bcf	Total oil and gas* mmboe
2P Reserves at 31 December 2021	**13.2**	**294.1**	**62.2**
2022 production	(1.0)	(43.7)	(8.3)
Revisions	6.5	87.0	21.0
2P Reserves at 31 December 2022	**18.7**	**337.4**	**74.9**

*Total Group gas reserves at 31 December 2021 and 2022 have been converted to barrels of oil equivalent using a factor of 6.0 bcf per mmboe for reporting and comparison purposes. As the actual calorific values of gas produced from individual fields varies, reported production rates for each field and the total production and revisions numbers reported above may not convert precisely.

Group Proved and Probable reserves at 31 December 2022 shown here are extracted from an independent report prepared by RISC Advisory ("RISC") in accordance with the reserve definitions guidelines defined in SPE Petroleum Resources Management System 2018 ("PRMS 2018"). RISC were familiar with the assets, having also completed an audit in the previous year.

Figures quoted relate to export fluids, so Fuel in Operation has already been subtracted.

Aggregate reserves revisions result from several factors, including field production performance in the time between audits and prevailing commodity prices, which are used for the economic evaluation.

Some volumes classified as contingent resources during the previous audit have now been re-classified as reserves, primarily because work has been included in the approved forward work programme to further enhance production. In addition, the Rhum R3 well has performed at the upper end of expectations since its successful workover.

Columbus reserves had a downward revision due to analysis of data gathered from the first full year of production, and the subsequent interpretation of this data.

For the previous report, Serica had assumed the permanent cessation of production (COP) for the Bruce hub would occur at the end of 2030 which was reflected in the CPR prepared by RISC. As part of the 'North Sea Transition Deal' the UK plans 'Zero Routine Flaring' at the end of 2030, and hence continuing production past that date requires investment related to flare gas recovery and other emission reduction measures. During 2022, Serica matured plans to undertake the projects necessary to meet these requirements and the cost of the projects has been included in the economic modelling required to determine economic cut-offs used to determine reserves. On the basis of these plans and the economic analysis, the new CPR assumes that Bruce hub production will continue to 2035 which is a significant part of the upward revision in 2P reserves.

The CPR takes account of the Energy Profits Levy ("EPL") introduced by the UK Government in 2022 (and subsequently revised) which did not previously apply.

LICENCE HOLDINGS

The following table summarises the Group's licences as at 31 December 2022.

Licence	Block(s)	Description	Role	%	Location
UK					
P.090	9/9a Bruce	Bruce Field Production	Operator	99%	Northern North Sea
P.090	9/9a Rest of Block Excluding Bruce (REST)	Development	Operator	98%	Northern North Sea
P.198	3/29a (ALL)	Rhum Field Production	Operator	50%	Northern North Sea
P.209	9/8a Bruce	Bruce Field Production	Operator	98%	Northern North Sea
P.209	9/8a Keith	Keith Field Production	Operator	100%	Northern North Sea
P.209	9/8a Rest of Block Excluding Bruce and Keith (REST)	Development	Operator	98%	Northern North Sea
P.276	9/9b BRUCE	Bruce Field Production	Operator	98%	Northern North Sea
P.276	9/9c (ALL)	Bruce Field Production	Operator	98%	Northern North Sea
P.276	9/9b Rest of Block Excluding Bruce Unit (REST)	Development	Operator	98%	Northern North Sea
P.566	3/29b (ALL)	Rhum Field non-unitised production	Operator	100%	Northern North Sea
P.975	3/24b (ALL)	Rhum non-unitised production	Operator	100%	Northern North Sea
P.975	3/29d (ALL)	Rhum non-unitised production	Operator	100%	Northern North Sea
P101	23/21a Columbus	Columbus Development Area	Operator	50%	Central North Sea
P1314	23/16f	Columbus Development Area	Operator	50%	Central North Sea
P57	23/26a	Erskine Field – Production	Non-operator	18%	Central North Sea
P264	23/26b	Erskine Field – Production	Non-operator	18%	Central North Sea
P2400	30/12c, 30/13c, 30/17h, 30/18c	Exploration	Non-operator	20%	Central North Sea
P2501	3/24c, 3/29c	Exploration	Operator	100%	Northern North Sea
P2506	3/25b, 3/30, 4/26, 9/5a	Exploration	Operator	100%	Northern North Sea

FINANCIAL REVIEW

2022 RESULTS

Serica generated a profit before taxation of £488.2 million for 2022 compared to £135.1 million for 2021. After current and deferred tax provisions of £310.4 million (2021: £55.8 million), profit for the year was £177.8 million compared to £79.3 million for 2021.

Profits were boosted during the year by a combination of increased production arising from successful 2021 investment on the Rhum R3 and Columbus wells, work on Bruce wells during 2022 and from high gas prices. Serica's continuing success in replacing oil and gas production since completion of the BKR acquisitions through investment assists the Company in counteracting the normal decline profiles of mature fields in the UKCS and thus sustaining financial performance.

Sales revenues

The total 2022 sales revenue of £812.4 million (2021: £514.1 million) included £37.5 million of gas supply contract revenue (2021: £nil). Gas supply contract revenue reflects the extinguishing of liabilities which were booked upon the conversion of some gas price swaps into fixed pricing under gas sales agreement during 2021. These liabilities are extinguished when the relevant gas volumes are delivered with an equivalent credit to the income statement.

Total product sales volumes for the year comprised approximately 431.5 million therms of gas (2021: 373.7 million therms), 1.1 million lifted barrels of oil (2021: 0.8 million barrels) and 71,290 metric tonnes of NGLs (2021: 52,400 metric tonnes). The combined sales revenue of £812.4 million (2021: £514.1 million) consisted of BKR revenues of £678.2 million (2021: £463.4 million), Erskine revenues of £63.6 million (2021: £36.3 million) and Columbus revenues of £70.6 million (2021: £14.4 million).

Average 2022 sales prices net of system fees were: 160 pence per therm including contract revenue (2021: 122 pence per therm) for gas, US$97.2 per barrel (2021: US$71.4 per barrel) for oil and £480 per metric tonne (2021: £340 per metric tonne) for NGLs. This gave a combined realised sales price net of hedging of US$104 per barrel of oil equivalent (2021: US$77 per boe). The average gas sales price of 160 pence per therm reflects a mix of volumes sold at current spot prices and volumes sold at contracted fixed prices. This is before gas price hedging costs on the retained gas price swaps detailed below. The fixed price element represented a reduction from daily spot pricing averaging approximately 30 pence per therm (2021: nil).

Gross profit

The gross profit for 2022 was £594.3 million compared to £386.8 million for 2021. Overall cost of sales of £218.2 million compared to £127.3 million for 2021. This comprised £121.0 million of operating costs (2021: £97.1 million) and £76.9 million of non-cash depletion charges (2021: £37.0 million), reflecting higher production volumes and the impact of reduced Columbus reserves. A further charge of £20.3 million represents a movement during the year of the opening liquids underlift to a significant overlift position (2021: credit of £6.9 million).

Operating costs comprise production, processing, transportation and insurance and also included some non-recurring charges. Operating costs per boe were US$15.7, compared to US$16.5 for 2021. Costs per boe have benefitted from the fixed elements of production costs being spread over increased production volumes but this has been partly offset by underlying cost inflation and exceptional costs related to the Rhum production interruption in Q1.

The 2022 depletion charge reflects the impact of a full year of Columbus production. Following the significant downgrade to Columbus reserves in the year, Columbus depletion is charged at a relatively higher unit cost per boe than the other producing assets and this has increased the overall depletion charge.

Operating profit before BKR fair value adjustment, net finance revenue and tax
The operating profit for 2022 was £476.2 million compared to £246.1 million for 2021. This included hedging expense, related to gas price swaps, of £45.4 million realised during 2022 (2021: £56.6 million) partly offset by unrealised hedging income of £20.9 million (2021: expense £74.6 million). Unrealised income represented the movement in respective valuations of future period swaps outstanding at year end 2021 and year end 2022.

An E&E asset write-off for 2022 of £82.7 million (2021: £nil) comprised drilling costs from the North Eigg exploration well incurred to 31 December 2022. The well encountered hydrocarbons, but not of commercial quantities as the reservoir sands were thinner than prognosed. The expenditure is applicable for total tax offset of approx. 85%. Further analysis of data is ongoing to assess if a future sidetrack location can be designed to evaluate further and the well has been suspended.

Administrative expenses for 2022 of £9.2 million compared to £6.1 million for 2021 mainly due to an increase in corporate activity, including advisor costs on projects separate to the Tailwind acquisition.

Transaction costs of £1.8 million (2021: £nil) comprise work on the due diligence, negotiation and structuring of the Tailwind transaction during 2022.

Share-based payments were £3.5 million (2021: £2.4 million) and currency gains were £3.9 million (2021: losses of £0.9 million) largely arising on GBP-reported US$ holdings as sterling weakened compared to the US$ during 2022.

Profit before taxation and profit for the period after taxation
Profit before taxation for 2022 was £488.2 million (2021: £135.1 million) after an £8.4 million credit arising from a decrease in the fair value of the BKR financial liability (2021: charge of £110.5 million) and £3.6 million of net finance revenue (2021: net costs of £0.4 million).

The 2022 fair value credit of £8.4 million relating to the BKR financial liability largely arose from an increased discounting effect from field life extension on the estimated amounts of those remaining liabilities. The fair value of the liabilities, which are described under BKR asset acquisitions below, is re-assessed at each financial period end. The prior year charge of £110.5 million included significant increases in the settlement of final net cash flow sharing and Rhum contingent consideration that occurred following higher production and gas prices impacting these items in 2H 2021.

Net finance revenue represents interest income earned on cash deposits offset by the discount unwind on decommissioning provisions and other minor finance costs.

As the Group had fully utilised its remaining losses carried forward from previous years during 2021, cash taxes are payable on 2022 income. In addition to corporation tax and supplementary charge, 2022 full year results also include charges for the newly introduced Energy Profits Levy ("EPL"). The EPL applies an additional 25% tax on profits earned from the production of UK oil and gas from 26 May 2022, increasing to 35% from January 2023 to March 2028.

The 2022 taxation charge of £310.4 million (2021: £55.8 million) comprised current tax charges of £277.7 million (2021: £15.8 million) and non-cash deferred tax charge of £32.7 million (2021: £40.0 million). The current tax expense includes an EPL current tax charge of £64.3 million. The deferred tax expense includes a one-off non-cash deferred tax charge of £59.0 million due to the introduction of the EPL. This arises because the deferred UK tax position on our balance sheet has been revalued from 40% to 75%, where relevant, to reflect the increase in our future tax rate in the period to 10 March 2028.

Overall, this generated a profit after taxation of £177.8 million for 2022 compared to a profit after taxation of £79.3 million for 2021.

GROUP BALANCE SHEET

Exploration and evaluation assets reduced by £1.9 million in the year from £2.9 million at 31 December 2021 to £1.0 million at 31 December 2022. New expenditure of £80.8 million on UK licences during the year largely comprised £80.0 million on drilling the North Eigg prospect. However, this was more than offset by E&E asset write-offs of £82.7 million comprising 2022 and prior period North Eigg well costs.

Total property, plant and equipment decreased from £328.9 million at year end 2021 to £265.9 million at 31 December 2022. Additions comprised capital expenditure during 2022 of £16.3 million mainly on the Bruce LWIV campaign. These were offset by depletion charges for 2022 of £76.9 million (2021: £37.0 million), decommissioning asset revisions of £2.2 million and other depreciation charges of £0.2 million (2021: £0.2 million). Depletion charges represent the allocation of field capital costs over the estimated producing life of each field and comprise costs of asset acquisitions and subsequent investment programmes. Depletion charges on the Columbus asset increased significantly from 2021 given the full year of production on the asset and reduction in the asset reserve base.

An inventories balance of £4.0 million and trade and other receivables of £134.6 million at 31 December 2022 showed little change from year end 2021.

Hedging advances of £24.3 million at 31 December 2022 (31 December 2021: £115.4 million) represented cash security lodged with commodity hedging counterparties, covering both remaining swaps and fixed forward prices, and is based upon gas futures prices at the end of December 2022. This is returned to Serica should forward gas prices fall or when monthly contracts are settled. Hedging advances showed extreme fluctuations in 2022 reflecting the extraordinary volatility in the gas market this year.

The increase in cash balances from £103.0 million at 31 December 2021 to £432.5 million at 31 December 2022 reflected cash flow from operations of £704.9 million mainly offset by significant taxation payments of £143.5 million, dividends paid of £46.3 million, capital expenditures of £97.1 million and £93.9 million of final net cash flow and other consideration paid to BKR counterparties.

Current trade and other payables increased to £69.9 million at 31 December 2022 from £33.7 million at the end of 2021, mainly due to the timing of significant ongoing operational work on North Eigg in Q4 2022 and the generation of a significant oil overlift balance during 2022.

The balance of UK corporation tax payable of £150.0 million (31 December 2021: £15.8 million) represents final instalments due in respect of 2022, covering corporation tax, supplementary charge and EPL. The increase from 2022 reflects Serica being a tax-payer for the full 2022 period following the utilisation of tax losses in 2021, and increased tax rates applicable from 26 May 2022. Significant corporation tax payments of £143.5 million were made in 2H 2022.

Derivative financial liabilities of £24.9 million at 31 December 2022 (31 December 2021: £45.8 million) represent the valuation of gas price swaps remaining in place at the year end and the consequent amounts projected to be due based upon futures pricing prevailing at that date.

Gas contract liabilities arising from the replacement of some gas price swaps by contracted fixed price elements as described above, comprise current liabilities of £1.0 million (31 December 2021: £37.5 million) and non-current liabilities of £nil (31 December 2021: £1.0 million).

Current financial liabilities of £nil (31 December 2021: £93.9 million) and non-current financial liabilities of £29.4 million (31 December 2021: £37.8 million) comprise remaining deferred consideration projected to be paid under the BKR acquisition agreements.

The current financial liability of £93.9 million at 31 December 2021 comprised the final two net cash flow sharing payments due, those for November and December 2021 totalling £63.3 million, a fixed payment of £16.0 million arising from the successful outcome of the Rhum R3 well operations and a further £14.6 million of contingent consideration in respect of Rhum field performance during 2021 and over the previous two years. These amounts were all settled in 1H 2022.

Non-current financial liabilities comprised deferred consideration in respect of BKR decommissioning and oil linefill. Under arrangements for those BKR field interests acquired from BP, Total E&P and BHP, decommissioning liabilities were retained by the vendors with Serica liable to pay deferred consideration equivalent to 30% of the actual costs of decommissioning net of tax recovered by them.

Non-current provisions relate to future decommissioning obligations. These showed a decrease of £2.9 million from £28.1 million at 31 December 2021 to £25.2 million at 31 December 2022. The decrease arose from £1.2 million of expenditure on suspended wells and £2.3 million of downward revisions to discounted cost estimates offset by a £0.6 million expense due to the unwinding of the discount applied to the estimates.

The deferred tax liability of £153.3 million at 31 December 2022 increased from £120.6 million at year end 2021 and reflects accounting provisions expected to be released in future periods now the Group's tax losses have been fully utilised. The deferred tax position in the balance sheet has been revalued from 40% to 75% where applicable to reflect the increase in the future tax rate in the period to 10 March 2028 resulting from the EPL.

Overall, net assets have increased from £272.5 million at year end 2021 to £408.7 million at 31 December 2022 after payment of dividends of £24.5 million in July 2022 and £21.8 million in November 2022.

The increase in share capital from £182.0 million to £183.2 million arose from shares issued following the exercise of share options and shares issued under employee share schemes, whilst the increase in other reserves from £22.1 million to £25.6 million arose from share-based payments related to share option awards.

CASH BALANCES AND FUTURE COMMITMENTS

Current cash position and price hedging

At 31 December 2022 the Group held cash and cash equivalents of £432.5 million (31 December 2021: £103.0 million) excluding cash lodged as security with gas price hedge counterparties. Of total cash and cash equivalents, £18.1 million was held in a restricted account against letters of credit issued in respect of certain decommissioning liabilities as at 31 December 2022 (31 December 2021: £12.9 million). Having utilised all of its tax losses carried forward by end 2021, Serica's first cash tax instalments of £143.5 million, were paid in 2H 2022, including the first instalment of the Energy Profits Levy paid in December 2022. Final instalments for 2022 were paid in January 2023.

No gas price hedges have been added since July 2021. In August 2021, some gas price swaps for 2022/3 were replaced by equivalent pricing for the same volumes fixed directly under gas sales contracts. These were valued at that date and are held as gas contract liabilities in the balance sheet without further revaluation. These liabilities are then extinguished when the relevant gas volumes are delivered. Consequently, Serica's gas price hedging comprises a mix of gas price swaps, fair valued at the balance sheet date, and fixed pricing under gas sales contracts which is held at initial value until extinguished.

At 31 December 2022 Serica held gas price swaps and equivalent fixed pricing under gas sales agreements for periods up to Q3 2023. For 2023, it held an average 150,000 therms per day for H1 and 50,000 therms per day for Q3 at average prices of 49 pence per therm and 41 pence per therm respectively. At 31 December 2022, cash hedging security advances of £24.3 million had been lodged with hedge counterparties as security against settlement of future hedge instruments (31 December 2021: £115.4 million).

Outstanding gas hedging is around 10% of volumes for 1H 2023 with negligible amounts remaining thereafter. The low level of remaining hedges continues to reduce exposure to hedge security requirements. The Company's oil and liquids production remains unhedged.

As of 31 March 2023, the Company held cash and cash equivalents of £389.3 million, after payment of cash consideration for the Tailwind acquisition of £61.6 million on 23 March 2023.

Cash projections are run periodically to examine the potential impact of extended low oil and gas prices as well as possible production interruptions. Serica currently has substantial net cash resources and relatively low operating costs per boe which means that the Company is well placed to withstand such risks and its capital commitments can be funded from existing cash resources.

Field and other capital commitments

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

There are no significant existing capital commitments on the BKR producing fields. Potential further programmes to enhance current production profiles and extend field life are under consideration. Net revenues from Serica's share of income from the BKR fields is expected to cover Serica's retained share of ongoing field expenditures as well as deferred consideration due under the respective BKR acquisition agreements set out below. Serica's share of decommissioning costs relating to its interests in the existing BKR field facilities will be met by the vendors apart from those field shares acquired from Marubeni (Bruce 3.75%, Keith 8.33%) for which Serica is directly responsible.

On the Columbus field, Serica's share of production revenue is expected to cover Serica's share of ongoing field expenditures. Decommissioning obligations are limited as the development comprises a single well linked via a subsea completion to an existing pipeline.

The Group's only significant exploration commitment is the drilling of a commitment well on Licence P2400 (Skerryvore) to be drilled before October 2025.

BKR asset acquisitions

On 30 November 2018 Serica completed the four BKR acquisitions. During 1H 2022, the final elements of contingent cash consideration arising from the net cash flow sharing arrangements, and other contingent payments arising from Rhum R3 well production and Rhum performance criteria, were made. The following elements of consideration were outstanding at 31 December 2022:

- BP, Total E&P and BHP retain liability, in respect of the field interests Serica acquired from each of them, for all the costs of decommissioning those facilities that existed at the date of completion. Serica will pay deferred consideration equal to 30% of actual future decommissioning costs, reduced by the tax relief that each of BP, Total E&P and BHP receives on such costs. These are held as non-current financial liabilities at 31 December 2021 and 2022. Staged prepayments against such projected amounts commenced in 1H 2022 (£9.1 million is included within trade and other receivables in the Balance Sheet at 31 December 2022) and will be spread over the remaining years before cessation of field production.

- Serica will pay to each of BP, Total E&P and BHP, deferred consideration equal to 90% of their respective shares of the realised value of oil in the Bruce pipeline at the end of field life. These are held as non-current financial liabilities at 31 December 2021 and 31 December 2022.

OTHER

Asset values and impairment

A review was performed for any indication that the value of the Group's oil and gas assets may be impaired at the balance sheet date of 31 December 2022 and no impairment triggers were noted other than for the Columbus production asset following the significant downgrade in reserves for the asset. The future recoverable amounts of the Columbus were then assessed and no impairment was recorded.

At 31 December 2022, Serica's market capitalisation stood at £777.9 million based upon a share price of 285.0 pence which exceeded the net asset value of £408.7 million. By 11 April the Company's market capitalisation has risen to £911.0 million.

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 carry a broad portfolio of assets with varied risk/reward profiles, to apply prudent industry practice, to carry insurance where both available and cost effective, and to retain adequate working capital.

Serica has built a strong working capital reserve which is available to respond to a range of risks including production interruptions, severe commodity price falls and unexpected costs. To supplement this the Company carries business interruption insurance to mitigate the impact of ongoing operating costs over sustained periods of production shut-in beyond an initial 60 days, where caused by events covered under such policies. The Company also uses price hedging instruments to help manage field revenues where considered cost effective

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

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

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

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

Risk	**Mitigation**
Production may be interrupted generating significant revenue loss whilst costs continue to be incurred	• The Company seeks to diversify its revenue streams • Management determines and retains an appropriate level of working capital • The Group carries business interruption cover
Safety may be compromised or control of production may be lost	• Safe operating procedures are applied and updated • Emergency response planning is carried out and rehearsed regularly
Asset integrity of the production facilities may cause production or HSE disruptions	• Strict adherence to Company 'Integrity Management Framework'

	and company Performance Standards • Comprehensive maintenance programme and assurance process
Third party offtake routes may experience restrictions or interruptions and full availability may depend upon sustained production from other fields in the system	• The Group aims to diversify its exposure to offtake routes where possible • The Group carries business interruption cover
Capital programmes may be delayed and costs may overrun	• Planned programmes incorporate the potential impact of normal delays and overruns • The Group retains working capital reserves to cover these
The Company is reliant upon its IT systems to maintain operations and communications	• The Group employs specialist support • Protection against external intrusion is incorporated within the system and tested regularly
Excessive flaring causes increased emissions and exceeds guidelines	• Close monitoring of flaring is conducted and targets set • Work is ongoing to eliminate routine flaring from assets

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

Political and commercial environment: World share and commodity markets and political environments continue to be volatile	
Risk	**Mitigation**
Tax rates and allowances may be varied at short notice, significantly reducing retained income	• Management will utilise investment incentives where available and consider geographical diversification
Volatile commodity prices mean that the Group cannot be certain of the future sales value of its products	• Planning and forecasting considers downside price scenarios • Oil and gas floor price hedging is utilised where deemed cost effective • Price mitigation strategies are considered at the point of major capital commitment
Sanctions imposed by the U.S. government may threaten continuing	

production from the Rhum field and licences are required to be renewed periodically, with the current licence to be renewed in January 2025	• Serica operates comprehensive controls to ensure compliance with license terms • The renewal process is initiated well in advance of renewal dates
The UKCS licensing regime under which Serica's operational rights and obligations are defined may be subject to future change	• Management maintains regular communication with regulatory authorities • The Company aligns its standards and objectives with government policies as closely as possible

Task Force for Climate-related Financial Disclosures ("TCFD")

Details of ESG strategies directed towards reducing carbon emissions and contributing to government Net Zero targets are described on pages 55 to 57 and also in a separate ESG Report.

The TCFD has developed a framework to formalise and implement the reporting of financial disclosures related to climate change. Serica has reviewed guidance issued by the TCFD with regard to the identification, management and reporting of climate-related financial risks and the Company is developing its capabilities to analyse and report climate-related risks giving consideration to the TCFD guidance.

Governance

- The Board is ultimately responsible for the governance of climate-related risks and opportunities. It sets policies and then reviews these as appropriate.

- The Board recognises climate change as a material risk to Serica with potential financial implications and understands that responding to the risks associated with climate change and building resilience is integral to the long-term success of the organisation.

- It reviews major risks regularly, receives updates from its subcommittees and also takes direct reports from key personnel. It sets general policy related to climate risks and opportunities, identifies where further actions are required and delegates authorities accordingly. This includes progress on emissions reduction, general environmental performance, developments in climate-related regulation and cost impacts.

- The Health, Safety and Environment Committee reports to the Board on the effectiveness of the Company's HSE and ESG programs and ensures that risks, including environmental or carbon-related hazards are fully assessed and appropriately mitigated. In addition, this sub-committee ensures that all personnel, including contractors employed by the Company, are fully aware of their HSE and ESG responsibilities and have been properly trained.

- The Audit Committee supervises the financial analysis of climate-related risks and opportunities and its incorporation into economic and investment models.

- The Remuneration Committee determines employee compensation packages and bonus structures which incorporate incentives to deliver climate-related objectives.

- The above subcommittees all meet regularly as required.

- At the end of 2022, the decision was made to create a dedicated Sustainability Board Committee, outside of the HSE Committee, to focus on specific ESG topics and issues, including climate related risk and opportunities. This new Board Committee has since been formed and its terms of reference published.

Strategy

The Company's focus is on acquiring or developing oil and gas assets, extending the producing lives of mid-to-late life assets and developing additional reserves where this can be done with a low carbon footprint, typically by utilising existing processing and export facilities.

Serica aligns with the UK government's commitment to achieving Net Zero emissions by 2050. Although our current assets are estimated to cease production well before 2050, Serica takes into account the earlier emissions reduction targets of the North Sea Transition Deal when making strategic decisions. Serica uses the risk categories recommended by the TCFD to further its reflection of climate-related risk and opportunities: Transition risks, including policy, legal, technology, market changes, and Physical risks resulting from event driven (acute) or longer-term (chronic) shifts in climate patterns.

Serica also recognises the opportunities presented to its organisation that are associated with climate change and the transition to a low carbon economy. These include divestments by larger companies of assets where Serica can seek to improve environmental performance, investment in energy efficient technology and collaboration between asset and infrastructure owners. Domestically-produced gas has a strategic role to play in the UK's energy transition. This offers a lower carbon alternative to more carbon-intensive fuels and to LNG imports and also assists in protecting the UK's security of energy supply as global energy sourcing is restructured. Serica is well-placed to apply its proven capabilities to extending the production lives of such assets whilst driving carbon-reduction programmes.

Serica has developed operational objectives which are aligned with climate-related risk reduction and climate change resilience planning. These include:

- Creation and continued use of emissions related key performance indicators (KPIs) and targets that directly affect employee bonus payments including those of the Senior Management Team;
- Continued development and enhancement of a robust ESG policy and strategy with a corresponding communication structure to internal and external stakeholders;
- Submission to the Regulator of a Bruce Emissions Reduction Action Plan (ERAP) that clearly lays out the programme of activities to achieve the emissions reduction targets set out in the North Sea Transition Deal. This includes major equipment change out and a degree of electrification of facilities;
- A dedicated VP ESG and Business Innovation to lead strategy development, drive change and support continuous improvement in emissions performance and wider ESG commitments;
- Creation of an Emissions Reduction Group, who look at opportunities to reduce the Company's carbon emissions in line with Industry targets. This group is led by Serica's Energy Transition Engineering Advisor, a new role that was created in 2022;
- Serica are active members of the Net Zero Technology Centre, who aim to help accelerate the development and implementation of technology to lower emissions;
- Alignment to recognised international ESG benchmarks and transparency initiatives such as the Global Reporting Initiative ("GRI") and Sustainability Accounting standards Board ("SASB") in addition to developing alignment to the TCFD recommendations.

Scenario Analysis

The TCFD has proposed that business resilience to climate risks should be assessed through scenario analysis. Scenarios start with the end goal, i.e. limiting global temperature rise to 1.5°C, and then model the steps that society, industry, governments etc must take in order to achieve it. The scenarios describe the impact on factors such as supply, demand, regulations, taxes and commodity pricing. Serica has taken a pragmatic approach to modelling and looks at the comparative changes to commodity prices under different scenarios, i.e., modelling a high and a low-price case, rather than taking the absolute values suggested in the scenarios. Serica has decided to base its analysis on two scenarios developed by the International Energy Agency's (IEA) World Outlook:

1. Net Zero – accelerated emissions reduction to achieve Net Zero emissions in the energy industry by 2050

2. Stated Policies – slower progress based upon existing governmental policies

In 2022, Serica ran quantitative scenario analysis against its business economic models, looking at the legacy Serica and Tailwind assets and the combined assets post-acquisition in March 2023. Parameters for the economic models were based on those of the International Energy Agency's (IEA) 2022 Net Zero and Stated Policies scenarios and concentrated on carbon taxes and commodity prices. The results of the exercise confirmed that Serica's business models are resilient under these scenarios. Serica will continue to use scenario analysis to test its resilience under different climate scenarios.

Climate Risk Management

- The Senior Management Team is structured and empowered to ensure that the Board has the necessary climate related information to assess the associated risks and opportunities. The team is responsible for compliance with and reporting against the organisational climate related metrics and targets in their individual business areas. The team evaluates climate-related risks and opportunities as an integral part of its business activities developing risk management systems, standards and procedures as required to achieve this.

- Serica's Risk Management Policy underlines the identification, assessment and mitigation of climate-related risks. Climate-related risks and opportunities are identified under the Company's Risk Management Policy. As its existing assets are all currently projected to cease production within the next ten to fifteen years, this is the key period of focus for the Company.

- Serica uses an operating risk management framework and risk assessment matrix to capture, rank and manage significant risks.

- Having assessed climate-related risks the Company either identifies specific mitigating actions and programmes or, where such specific responses are not considered feasible, builds likely financial impacts into valuations and planning.

- Where investigating new investment opportunities and acquisitions, reviews are conducted of all climate-related risks and potential mitigations.

- As Serica's climate-related risk identification and management programme progresses, regular updates are provided to the Board and where appropriate added into the Group's risk register which is then reviewed monthly.

As Serica's existing fields are all currently projected to cease production within the next fifteen years, as such, this is the key period of focus for the Company. Hence, Serica has primarily targeted its considerations of climate-related risks and opportunities over the short and medium terms. Serica have defined the time period for short, medium and long terms risks as:

- Short term risks: 1 – 3 years
- Medium term risks: 6 – 9 years
- Long term risks: 10 + years

Serica uses the risk categories recommended by the TCFD to further its reflection of climate-related risk and opportunities: Transition risks and Physical risks.

Serica have identified the following climate related risks:

Climate Related Risks	
Risk	**Mitigation**
The transition away from carbon-based energy sources may restrict the future demand for, or production of, the Group's oil and gas reserves (Medium to Long term)	• The estimated value of future reserves is progressively discounted for later periods of production • Since the acquisition of Tailwind Energy, our reserves are more evenly split between oil and gas. This mitigates the risk of the demand for one commodity reducing more than another in the medium term • The Company closely follows industry related forecasts and trends from numerous sources, including the IEA and OEUK • The Company's ESG team reviews opportunities for investment in clean technology and is currently involved in projects with the Net Zero Technology Centre
Energy transition objectives may bring additional levies or taxes (Short term)	• Estimates of climate-related charges are included in cost estimates where reasonably identifiable • Management prioritises the delivery of ESG objectives which may reduce such impacts
Costs related to the transition including ETS carbon credits and investment in more efficient equipment/processes may increase significantly whilst commodity prices may be volatile (Short to Medium term)	• A range of potential outcomes are modelled, and financial plans are flexed to ensure economic resilience under a wide range of scenarios • The Company Emission Reduction Action Plan was developed in 2022 to address this
More extreme weather patterns may threaten or disrupt operations (Short to Long term)	• The Company seeks to maintain robust transport and supply chains • The impact of extreme climatic conditions such as exceptional waves are incorporated in risk management scenarios • The Company conducts an annual Severe Weather Action Plan Emergency Response exercise
Sources of finance including equity markets and debt providers may be harder to access or become more expensive (Short term)	• Management engages with potential sources to anticipate their ESG compliance requirements • The Company also seeks to retain a range of alternative financing options • Potential funding cost increases are considered when planning investments
The range of potential acquisitions may be restricted by ESG considerations (Short to Medium term)	• Management considers the emissions profiles of potential acquisition targets and the mitigating actions that it can implement • It prioritises opportunities to deliver low carbon intensity production into the UK market

The industry's reputation is damaged through negative perception by external stakeholders (Short to Medium term)	• The Company follows internationally recognised ESG reporting guidelines • It also seeks regular engagement with stakeholders on its ESG activities and performance

Metrics and Targets

Carbon emissions data is collected from Serica's assets, including operated and partnered facilities. Serica assures this data for consistency and comparability throughout its portfolio over time. This data is used to ensure compliance with UKCS emissions regulation and to comply with all operating permits and consents associated with Serica's assets. It also provides benchmarks for delivering emissions reductions through the adoption of meaningful and achievable carbon reduction targets. Details on progress will be provided in the ESG Report to be published in conjunction with the Annual Report.

Serica sets annual emissions targets as part of its annual bonus scheme. Performance against these targets is directly linked to the remuneration of our staff and executives. Serica has implemented ESG bonus linked targets since 2021.

These are based on absolute rather than proportionate or intensity based targets. Performance against these targets is monitored on a regular basis and performance is reported across the organisation from our Board to staff and contractors via Serica's Environmental Performance Dashboard.

Key Performance Indicators ("KPIs")

The Company's main business is the acquisition, development and production of commercially attractive oil and gas reserves in a safe and environmentally sensitive manner. This is achieved both through pursuing the full cycle of exploration, discovery, development and production and also through acquiring existing reserves where management believe that further value can be added.

Operational and financial performance is tracked through the following KPI's whose progress is covered within the Review of Operations and Finance Review within this strategic report:

- Daily production volumes
- Production costs per barrel of oil equivalent
- Realised sales income per barrel of oil equivalent

HSE performance is tracked through the following KPI's whose progress is covered within an updated ESG Report:

- Recordable incidents and injuries
- Workforce engagement in HSE
- Quality of discharges to water and air
- Ongoing maintenance programmes

ESG performance is tracked through the following KPI's whose progress is covered within the ESG Report:

- Annual carbon emissions
- Flare volumes
- Establishing a methane action plan

Elements falling within each of the above categories are included within annual incentive schemes for all Group employees.

The Company tracks its new business development objectives through the building of a risk-balanced portfolio of full cycle assets. Specific KPI's are not applied due to the range of different potential acquisition targets. However, successful delivery will add to future production volumes and net realised income.

Further information upon the Company's HSE and ESG policies and delivery can be found within the ESG Report which will be issued along with the 2022 Annual Report.

Section 172 statement

The Directors' statement under Section 172 of the Companies Act 2006 is included on pages 52 to 54.

Additional Information

Additional information relating to Serica, can be found on the Company's website at www.serica-energy.com and on SEDAR at www.sedar.com

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

On behalf of the Board
Mitch Flegg
Chief Executive Officer
12 April 2023

Forward Looking Statements

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

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

	Note	**2022 £000**	2021 £000
Continuing operations			
Sales revenue	4	812,423	514,136
Cost of sales	5	(218,155)	(127,313)
Gross profit		594,268	386,823
Unrealised hedging income/(expense)	6	20,877	(74,592)
Realised hedging expense	6	(45,384)	(56,615)
Pre-licence costs		(185)	(199)
E&E asset write-offs	14	(82,749)	-
Administrative expenses		(9,225)	(6,097)
Transaction costs	31	(1,785)	-
Foreign exchange gain/(loss)		3,903	(854)
Share-based payments	27	(3,510)	(2,386)
Operating profit before net finance revenue and tax		476,210	246,080
Change in fair value of BKR financial liabilities	22	8,407	(110,529)
Finance revenue	9	4,499	82
Finance costs	10	(938)	(527)
Profit before taxation		488,178	135,106
Taxation charge for the year	11a)	(310,382)	(55,812)
Profit for the year		177,796	79,294

Earnings per ordinary share - EPS			
Basic EPS on profit for the year (£)	12	0.65	0.30
Diluted EPS on profit for the year (£)	12	0.62	0.28

Group Statement of Comprehensive Income

There are no other comprehensive income items other than those passing through the income statement. Therefore, the total comprehensive income attributable to equity holders of the parent is £177,796,000.

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

	Note	Group **2022** **£000**	2021 £000	Company **2022** **£000**	2021 £000
Non-current assets					
Exploration & evaluation assets	14	1,001	2,949	-	-
Property, plant and equipment	15	265,907	328,944	216	43
Investments in subsidiaries	16	-	-	105,256	105,256
		266,908	331,893	105,472	105,299
Current assets					
Inventories	17	3,998	4,053	-	-
Trade and other receivables	18	134,627	132,351	25,445	162,010
Hedging security advances	19	24,320	115,390	-	-
Cash and cash equivalents	20	432,529	102,984	141,218	578
		595,474	354,778	166,663	162,588
TOTAL ASSETS		862,382	686,671	272,135	267,887
Current liabilities					
Trade and other payables	21	(69,887)	(33,697)	(3,367)	(1,023)
Corporate tax payable		(149,998)	(15,804)	-	-
Derivative financial liabilities	19	(24,914)	(45,791)	-	-
Gas contract liabilities	19	(987)	(37,505)	-	-
Financial liabilities	22	-	(93,861)	-	-
Non-current liabilities					
Gas contract liabilities	19	-	(987)	-	-
Financial liabilities	22	(29,378)	(37,795)	-	-
Provisions	23	(25,199)	(28,095)	-	-
Deferred tax liability	11d)	(153,295)	(120,608)	-	-
TOTAL LIABILITIES		(453,658)	(414,143)	(3,367)	(1,023)
NET ASSETS		408,724	272,528	268,768	266,864
Share capital	25	183,177	181,993	155,478	154,294
Merger reserve	16	-	-	88,088	88,088
Other reserve	27	25,576	22,066	25,576	22,066
Accumulated funds/(deficit)		199,971	68,469	(374)	2,416
TOTAL EQUITY		408,724	272,528	268,768	266,864

The profit for the Company was £43.5 million for the year ended 31 December 2022 (2021: loss of £0.4 million). In accordance with the exemption granted under section 408 of the Companies Act 2006 a separate income statement for the Company has not been presented.

Approved by the Board on 12 April 2023

Mitch Flegg
Chief Executive Officer

Andrew Bell
Chief Financial Officer

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

Group

	Note	Share capital £000	Other reserve £000	Accum'd funds/ (deficit) £000	Total £000
At 1 January 2021		181,606	19,680	(1,440)	199,846
Profit for the year		-	-	79,294	79,294
Total comprehensive income		-	-	79,294	79,294
Share-based payments	27	-	2,386	-	2,386
Issue of share capital	25	387	-	-	387
Dividend paid	13	-	-	(9,385)	(9,385)
At 31 December 2021		181,993	22,066	68,469	272,528
Profit for the year		-	-	177,796	177,796
Total comprehensive income		-	-	177,796	177,796
Share-based payments	27	-	3,510	-	3,510
Issue of share capital	25	1,184	-	-	1,184
Dividends paid	13	-	-	(46,294)	(46,294)
At 31 December 2022		183,177	25,576	199,971	408,724

Company	Share capital £000	Merger reserve £000	Other reserve £000	Accum'd funds (deficit) £000	Total £000
At 1 January 2021	153,907	88,088	19,680	12,170	273,845
Loss for the year	-	-	-	(369)	(369)
Total comprehensive income	-	-	-	(369)	(369)
Share-based payments (note 27)	-	-	2,386	-	2,386
Issue of share capital (note 25)	387	-	-	-	387
Dividend paid	-	-	-	(9,385)	(9,385)
At 31 December 2021	154,294	88,088	22,066	2,416	266,864
Profit for the year	-	-	-	43,504	43,504
Total comprehensive income	-	-	-	43,504	43,504
Share-based payments (note 27)	-	-	3,510	-	3,510
Issue of share capital (note 25)	1,184	-	-	-	1,184
Dividend paid (note 13)	-	-	-	(46,294)	(46,294)
At 31 December 2022	155,478	88,088	25,576	(374)	268,768

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

	Note	Group **2022** **£000**	2021 £000	Company **2022** **£000**	2021 £000
Operating activities:					
Profit/(loss) for the year		177,796	79,294	43,504	(369)
Adjustments to reconcile profit for the year to net cash flow from operating activities:					
Taxation charge		310,382	55,812	-	-
Change in BKR fair value liability		(8,407)	110,529	-	-
Net finance (income)/costs		(3,870)	445	(982)	49
Depreciation and depletion		76,887	37,048	-	-
Oil and NGL over/underlift		20,270	(6,859)	-	-
E&E asset write-offs		82,749	-	-	-
Unrealised hedging (gains)/losses		(20,877)	74,592	-	-
Movement in contract revenue		(37,505)	-	-	-
Share-based payments		3,510	2,386	3,510	2,386
Other non-cash movements		(1,503)	349	140	80
Decrease/(increase) in security advances		91,070	(113,590)	-	-
(Increase)/decrease in trade and other receivables		(8,571)	(86,527)	(24)	453
Decrease in inventories		55	580	-	-
Increase in trade and other payables		22,872	3,544	2,131	207
Cash inflow from operations		704,858	157,603	48,279	2,806
Taxation paid		(143,500)	-	-	-
Decommissioning spend		(1,218)	-	-	-
Net cash inflow from operating activities		560,140	157,603	48,279	2,806
Investing activities:					
Interest received		4,499	82	1,033	7
Purchase of E&E assets		(80,801)	(1,906)	-	-
Purchase of property, plant and equipment		(16,298)	(50,252)	-	-
Receipts from Group subsidiaries		-	-	136,761	-
Cash outflow from business combination	22	(93,871)	(81,277)	-	-
Cash outflow arising on asset acquisitions	23	-	(1,002)	-	-
Net cash flow from investing activities		(186,471)	(134,355)	137,794	7
Financing activities:					
Payments of lease liabilities	28	(132)	(179)	(132)	(179)
Proceeds from issue of shares	25	1,184	387	1,184	387
Dividends paid	13	(46,294)	(9,385)	(46,294)	(9,385)
Finance costs paid		(385)	(71)	(51)	(56)
Net cash flow from financing activities		(45,627)	(9,248)	(45,293)	(9,233)
Net increase/(decrease) in cash and cash equivalents	26	328,042	14,000	140,780	(6,420)
Effect of exchange rates on cash and cash equivalents	26	1,503	(349)	(140)	(80)
Cash and cash equivalents at 1 January	26	102,984	89,333	578	7,078
Cash and cash equivalents at 31 December	26	432,529	102,984	141,218	578

Serica Energy plc

Notes to the Financial Statements

1. Authorisation of the Financial Statements and Statement of Compliance with International Accounting Standards in conformity with the requirements of the Companies Act 2006

These are not the statutory accounts of the Company prepared in accordance with the Companies Act. The Group's and Company's financial statements for the year ended 31 December 2022 were authorised for issue by the Board of Directors on 12 April 2023 and the balance sheets were signed on the Board's behalf by Mitch Flegg and Andrew Bell. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales with its registered office at 48 George Street, London, W1U 7DY. The principal activity of the Company and the Group is to identify, acquire and subsequently exploit oil and gas reserves. Its current activities are located in the United Kingdom. The Company's ordinary shares are traded on AIM.

The Group's financial statements have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Group for the year ended 31 December 2022. The Company's financial statements have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Company for the year ended 31 December 2022 and as applied in accordance with the provisions of the Companies Act 2006. 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 £43,504,000 (2021: loss £369,000).

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 2022.

The Group and Company financial statements have been prepared on a historical cost basis and following the change in functional and presentational currency from US$ to £ sterling with effect from 1 January 2019 are presented in £ sterling. All values are rounded to the nearest thousand pounds (£000) except when otherwise indicated. In preparing the Group financial Statements management has considered the impact of climate change. These considerations did not have a material impact on the financial reporting judgements and estimates and consequently climate change is not expected to have a significant impact on the Group's going concern assessment to June 2024 nor the viability of the Group over the next five years. However, governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. It is recognised that Net Zero targets and third party expectations may drive government action that imposes further requirements and costs on companies in the future. The Group has additional planned expenditure related to flare gas recovery and other emission reduction measures, however, as all of the Group's currently producing assets are projected to cease production by 2036 it is believed that any such future changes would have a relatively limited impact compared to assets with longer durations.

Going Concern

The Directors are required to consider the availability of resources to meet the Group's liabilities for the period ending 30 June 2024, the 'going concern period'. The financial position of the Group, its cash flows and capital commitments are described in the Financial Review above.

At 31 December 2022 the Group held cash and term deposits of £432.5 million which included £18.1 million of restricted funds. Following completion of Serica's acquisition of Tailwind Energy Investments Ltd on 23 March 2023 the Serica Group's going concern considerations now include a US$366 million assumed RBL facility, and a separate undrawn US$50 million junior facility which is available until the RBL is repaid. See note 31 for further details of the RBL and junior facility. The acquisition of Tailwind gives the Group increased production and operating cash flows, a balance in product mix between gas and oil, and two main operating hubs which reduces the potential impact of production interruptions. Serica currently has competitive operating costs per boe and its capital commitments can be funded from existing cash resources.

The Group regularly monitors its cash, funding and liquidity position, including available facilities and compliance with facility covenants. Near term cash projections are revised and underlying assumptions reviewed, generally monthly, and longer-term projections are also updated regularly. Downside price and other risking scenarios are considered. In addition to commodity sales prices the Group is exposed to potential production interruptions and these are also considered under such scenarios. In recent years, management has given priority to building a strong cash reserve which can respond to different types of risk.

As at 31 March 2023 the Group held cash and term deposits of £389.3 million including £18.1 million of restricted funds, with separate RBL liquidity headroom of US$36 million (US$330 million drawn versus US$366 million available).

For the purposes of the Group's going concern assessment we have reviewed two cash projections for the going concern period. These projections cover a base case forecast and an extreme stress test scenario for the combined operations of the Group, including both legacy Tailwind and Serica assets. RBL repayments have been assumed based on the current redetermination and no covenant compliance matters noted.

The base case assumptions include commodity pricing of £1/therm for gas and US$70/bbl for oil throughout the going concern period. Production, opex, capex and tax assumptions are those currently included in standard management forecasting. The forward looking price assumptions are considered as reasonable in light of recent commodity forward pricing and a consensus of published forecasts from the industry, brokers and other analysts.

The stress test assumptions assume commodity pricing of £1/therm for gas and US$70/bbl for oil for Q2 2023, a full six-month shut-in of all production for 2H 2023, followed by a return to base case production in 1H 2024 to the end of the going concern period at 30 June 2024. Lower commodity pricing of 75 pence/therm and US$50/bbl oil are assumed for the 1H 2024 period in this scenario which are significantly below the range of current market expectations for the going concern period. Under this scenario, which would result in lower cash inflows and repayments of the RBL facility as redetermined, the Group was able to maintain sufficient cash to meet its obligations and maintain covenant compliance. A number of mitigating factors and mitigating actions that are under management control are available to management in the stress test event. These would mitigate the reduced operating cash outflows experienced and are not included in the projection.

After making enquiries and having taken into consideration the above factors, the Directors considered it appropriate that the Group has adequate resources to continue in operational existence for the going concern period. 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 UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 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.

Uses of judgement
A key source of judgement that has a significant risk of causing material adjustment to the amounts recognised in the financial statements is whether impairment triggers exist that might lead to the impairment of the Group and Company's assets (including oil and gas development assets and Exploration and Evaluation "E&E" assets).

<u>Assessment of the recoverable amount of intangible and tangible assets</u>
The Group monitors internal and external indicators of impairment relating to its intangible and tangible assets, which may indicate that the carrying value of the assets may not be recoverable. The assessment of the existence of indicators of impairment in E&E assets involves judgement, which includes whether licence performance obligations can be met within the required regulatory timeframe, whether management expects to fund significant further expenditure in respect of a licence, and whether the recoverable amount may not cover the carrying value of the assets. For development and production assets judgement is involved when determining whether there have been any significant changes in the Group's oil and gas reserves.

The Group determines whether E&E assets are impaired at an asset level and in regional cash generating units ('CGUs') when facts and circumstances suggest that the carrying amount of a regional CGU may exceed its recoverable amount. As recoverable amounts are determined based upon risked potential, or where relevant, discovered oil and gas reserves, this involves estimations and the selection of a suitable pre-tax discount rate relevant to the asset in question. The calculation of the recoverable amount of oil and gas development and production properties involves estimating the net present value of cash flows expected to be generated from the asset in question. Future cash flows are based on assumptions on matters such as estimated proven and probable oil and gas reserve quantities and commodity prices. The discount rate applied is a pre-tax rate which reflects the specific risks of the country in which the asset is located.

Sources of estimation uncertainty
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 impairment indicators, the assessment of commercial reserves, determining the fair value of contingent consideration and decommissioning provisions.

<u>Assessment of impairment indicators</u>
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 16).

A review was performed for any indication that the value of the Group's oil and gas assets may be impaired at the balance sheet date of 31 December 2022 in accordance with the stated policy and no impairment triggers were noted other than for the Columbus production asset. Columbus reserves booked in the 2022 reserves report had a significant downward revision due to analysis of data gathered from the first full year of production, and the subsequent interpretation of this data. This analysis, together with lower production than initially forecast and the introduction of the EPL, are factors that combine as a trigger for potential impairment. The future recoverable amounts of the Columbus were assessed and no impairment was recorded, largely due to the impact of strong future commodity prices (see note 15) and the significantly reduced carrying amount given the increased depletion charge recognised as a result of the reserves reduction. Based on sensitivities performed, there is no risk of a material adjustment to the carrying value of the Columbus CGU, because a reasonable change in key assumptions used to determine the recoverable amount would not result in an impairment.

Assessment of commercial oil and gas reserves
Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the 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. A 10% reduction in the assessed quantity of commercial reserves would lead to an increase in the depletion charge for 2022 of £8.5 million (2021: £4.1 million).

Determining the fair value of contingent consideration on BKR acquisitions
The Group determined the fair value of initial contingent consideration payable based on discounted cash flows at the time of the acquisition in 2018, calculated for each separate component of the contingent consideration. The same models and assumptions were used in the calculation of the fair value of property, plant and equipment arising on the business combination. Any cash flows specific to the contingent consideration also reflect applicable commercial terms and risks. In calculating the fair value of the remaining contingent consideration on the BKR acquisitions payable as at 31 December 2022, assumptions underlying the calculation were updated from 2021. These included updated commodity prices, production profiles, future opex, capex and decommissioning cost estimates, discount rates, proved and probable reserves estimates and risk assessments. For further details including sensitivities of the calculation to changes in input variables (see note 22).

Decommissioning provision
Amounts used in recording a provision for decommissioning are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice. To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of decommissioning provisions are reviewed on a regular basis. The effects of changes in estimates do not give rise to prior year adjustments and are dealt with prospectively. While the Group uses its best estimates and judgement, actual results could differ from these estimates (see note 23).

Basis of Consolidation

The consolidated financial statements include the accounts of Serica Energy plc (the "Company") and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Together these comprise the "Group".

Control is achieved when the Company:
• has power over the investee;
• is exposed, or has rights, to variable returns from its involvement with the investee; and
• has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of the subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All inter-company balances and transactions have been eliminated upon consolidation.

Foreign Currency Translation

The functional and presentational currency of Serica Energy plc and its subsidiaries is £ sterling following the change in functional and presentational currency from US$ to £ sterling with effect from 1 January 2019.

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

Business Combinations and Goodwill

<u>Business combinations from 1 January 2010</u>

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred to the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill on acquisition is initially measured at cost being the excess of purchase price over the fair market value of identifiable assets, liabilities and contingent liabilities acquired. Following initial acquisition, it is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to an impairment test at least annually and more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

Joint Arrangements

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

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

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

Exploration and Evaluation Assets

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

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

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

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

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

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, any applicable borrowing costs.

Depletion

Oil and gas properties are not depleted until production commences. Costs relating to each single field cost centre are depleted on a unit of production method based on the commercial proved and probable reserves for that cost centre. The depletion calculation takes account of the estimated future costs of development of management's assessment of proved and probable reserves, reflecting risks applicable to the specific assets. Changes in reserve quantities and cost estimates are recognised prospectively from the last annual reporting date. Proved and probable reserves estimates obtained from an independent reserves specialist have been used as the basis for 2021 and 2022 calculations.

Impairment

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

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

Acquisitions, Asset Purchases and Disposals

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

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

Decommissioning

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

Any changes in the present value of the estimated expenditure are 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').

Property, Plant and Equipment - Other

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

Inventories

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

Investments

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

Financial Instruments

Financial instruments comprise financial assets, cash and cash equivalents, financial liabilities and equity instruments. Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through profit or loss, and fair value through other comprehensive income (OCI).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs (in the case of a financial asset not at fair value through profit or loss). Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Financial assets at fair value through profit or loss include financial assets held for trading and derivatives. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

In order for a financial asset to be classified and measured at amortised cost it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

Cash and cash equivalents

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

Financial liabilities

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

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

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

Emissions liabilities

The Group operates in an energy intensive industry and is therefore required to partake in emission trading schemes (‘ETS’). The Group recognises an emission liability in line with the production of emissions that give rise to the obligation. To the extent the liability is covered by allowances held, the liability is recognised at the cost of these allowances held and if insufficient allowances are held, the remaining uncovered portion is measured at the spot market price of allowances at the balance sheet date. The expense is presented within ‘production costs’ under ‘cost of sales’ and the accrual is presented in ‘trade and other payables’.

Derivative financial instruments

The Group uses derivative financial instruments, such as forward commodity contracts, to hedge its commodity price risks. The Group has elected not to apply hedge accounting to these derivatives. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income and presented within operating profit.

Further details of the fair values of derivative financial instruments and how they are measured are provided in Note 19.

Equity

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

Trade and other receivables and contract assets

Trade receivables and contract assets
A receivable represents the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). A contract asset is the right to consideration in exchange for goods or services transferred to the customer.

Provision for expected credit losses of trade receivables and contract assets
For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses ‘ECLs’. Therefore, the Group does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. A financial asset is written off when there is no reasonable

expectation of recovering the contractual cash flows. The Group's receivables have a good credit rating and there has been no noted change in the credit risk of receivables in the year. The Company holds inter-company loans with subsidiary undertakings with repayment dates being repayable on demand. These inter-company loans are disclosed on the face of the balance sheet. None are past due nor impaired. The carrying value of these loans approximates their fair value. The expected credit loss on these loans with subsidiary undertakings is expected to be immaterial, both on initial recognition and subsequently.

Provisions

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

The Group's estimate in respect of contingent consideration that may be payable following the acquisition of its interest in the Erskine field, is capitalised as an asset acquisition cost. The value of the provision is determined by the amounts and nature of operating costs incurred over a contractual period.

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods or services. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes. The Group has concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

The sale of crude oil, gas or condensate represents a single performance obligation, being the sale of barrels equivalent on collection of a cargo or on delivery of commodity into an infrastructure. Revenue is accordingly recognised for this performance obligation when control over the corresponding commodity is transferred to the customer. The Group principally satisfies its performance obligations at a point in time and the amounts of revenue recognised relating to performance obligations satisfied over time are not significant. The normal credit term is 15 to 45 days upon collection or delivery.

Finance Revenue

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

Finance Costs

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

Share-Based Payment Transactions

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

Equity-settled transactions

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

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

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

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

Income Taxes

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

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

- temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and

- temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the income statement nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are presented net only if there is a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

Earnings Per Share

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

Leases

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

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

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

The Group does not currently act as a lessor.

New and amended standards and interpretations

The Group has adopted and applied for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group.

Standards issued but not yet effective

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice.

GLOSSARY

bbl	barrel of 42 US gallons
bcf	billion standard cubic feet
boe	barrels of oil equivalent (barrels of oil, condensate and LPG plus the heating equivalent of gas converted into barrels at the appropriate rate)
BKR	Bruce, Keith and Rhum fields
BPEOC	BP Exploration Operating Company
CGU	Cash generating unit
CPR	Competent Persons Report
ESG	Environmental, Social and Governance
FDP	Field Development Plan
FPS	Forties Pipeline System
GRI	Global Reporting Index (framework for sustainability reporting)
HPHT	High pressure high temperature
mscf	thousand standard cubic feet
mmbbl	million barrels
mmboe	million barrels of oil equivalent
mmscf	million standard cubic feet
mmscfd	million standard cubic feet per day
NGLs	Natural gas liquids extracted from gas streams
NTS	National Transmission System
OGA	Oil and Gas Authority
Overlift	Volumes of oil or NGLs sold in excess of volumes produced
Underlift	Volumes of oil or NGLs produced but not yet sold
P10	A high estimate that there should be at least a 10% probability that the quantities recovered will actually equal or exceed the estimate
P50	A best estimate that there should be at least a 50% probability that the quantities recovered will actually equal or exceed the estimate
P90	A low estimate that there should be at least a 90% probability that the quantities recovered will actually equal or exceed the estimate
Pigging	A process of pipeline cleaning and maintenance which involves the use of devices called pigs
Proved Reserves	Proved reserves are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves
Probable Reserves	Probable reserves are those additional Reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves
Possible Reserves	Possible reserves are those additional Reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved + probable + possible reserves
Reserves	Estimates of discovered recoverable commercial hydrocarbon reserves calculated in accordance with the revised June 2018 Petroleum Resources Management System (PRMS) version 1.01
SASB	Sustainability accounting standards board
Tcf	trillion standard cubic feet
TCFD	Taskforce on Climate-related Financial Disclosures
UKCS	United Kingdom Continental Shelf
UNSDG	United Nations Sustainable Development Goals