SERICA ENERGY PLC

2022

ANNUAL REPORT AND ACCOUNTS

Company Number: 5450950

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.

EXECUTIVE MANAGEMENT TEAM AND BOARD OF DIRECTORS/PROFILES

Antony Craven Walker, Non-Executive Chair, started his career with BP as a petroleum engineer in 1966 and has been a leading figure in the British independent oil industry since the early 1970s. Mr Craven Walker founded two British independent oil companies, Charterhouse Petroleum, where he held the post of Chief Executive, and Monument Oil and Gas, where he held the post of Chief Executive and later became Chair. Both companies were acquired by larger groups in 1986 and 1999 respectively. Mr Craven Walker was also a founder member of BRINDEX (Association of British Independent Oil Exploration Companies). Mr Craven Walker was appointed Non-Executive Chair of Serica in 2004 and, following the retirement of the then Chief Executive in April 2011, initially acted as interim Chief Executive. In 2015, he took the role of Executive Chair, under his direction the Company embarked upon its strategy to refocus on the North Sea and build a strong production base. Mr Craven Walker's experience in the oil and gas and public market sectors provided him the skills necessary to provide the services of Executive Chair whilst the Company developed its business strategy. With effect from 1 July 2022, Mr Craven Walker was appointed as Non-Executive Chair of the Company. He will be standing down from the Chair and the Board following this year's AGM.

Committees: Nominations and Corporate Governance Committee.

Mitch Flegg, Chief Executive Officer has over 40 years of experience in the upstream oil and gas industry, including positions at Shell and Enterprise Oil. Mr Flegg first joined the Company in 2006 and was responsible for all drilling and development operations. He was promoted to the position of Chief Operating Officer in March 2011 and appointed to the Board in September 2012. Mr Flegg left the Company in May 2015 to become CEO of Circle Oil Plc. Mr Flegg re-joined the Board on 21 November 2017 as Chief Executive Officer on the announcement of the BKR transaction. Mr Flegg's background and experience ensures that the Company is effectively led to achieve the Company's long-term strategic goals and becomes a leading producer and operator.

Committees: Health Safety & Environmental Committee, Reserves Committee and Sustainability Committee.

Andrew Bell, Chief Financial Officer joined the Board on 4 September 2021. Mr Bell had provided consultancy to Serica since 2004 on the Company's original AIM listing, the implementation of all finance systems and also on supporting acquisitions, disposals and associated financing structures. Mr Bell worked on the BKR transactions and was appointed VP Finance upon signature in 2017. Mr Bell has approaching 40 years' experience of all aspects of upstream finance for public companies listed in London and Toronto and for private-backed companies. These include Charterhouse Petroleum plc, Monument Oil and Gas plc, Consort Resources Ltd and Centric Energy Corp.

Trevor William Garlick, Independent Non-Executive Director, joined the Board on 30 November 2018, on completion of the BKR transaction. Mr Garlick spent most of his career in BP where he worked for 30 years, latterly as Regional President of UK / Norway from 2010 until retirement in 2016. Mr Garlick is a director of Energy Transition Zone (ETZ) Limited. Mr Garlick chairs the Company's Health, Safety and Environmental Committee and the Reserves Committee.

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

Malcolm Webb, Senior Independent Non-Executive Director, joined the Board on 30 November 2018, on completion of the BKR transaction. Mr Webb started his career with Burmah Oil Company in 1974 as a company legal adviser. Between 1986 and 1999, Mr Webb worked in the Petrofina SA Group in various senior management roles. In 2001, Mr Webb was appointed Director General of the UK Petroleum Industry Association and in 2004 he joined Oil & Gas UK as Chief Executive, from which post he retired in 2015. Mr Webb's industry background, together with his corporate and legal experience provides the Board with the expertise to review and challenge decisions and opportunities presented. Mr Webb chairs the Company's Nomination and Corporate Governance Committee.

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

Kate Coppinger, Independent Non-Executive Director joined the Board on 22 April 2020. Ms. Coppinger has over 20 years' investment banking, Ms Coppinger's career includes roles at Canadian Imperial Bank of Commerce, Harrison Lovegrove and most recently as Managing Director at Standard Chartered in the Oil and Gas team responsible for origination and execution of transactions for European clients. Her global M&A transaction experience spans Asia through to South America with particular emphasis on the North Sea. Ms Coppinger chairs the Company's Audit Committee.

Committees: Audit Committee (Chair) and Remuneration Committee.

David Latin, Independent Non-Executive Director joined the Board on 7 December 2021. Mr Latin has over 30 years' experience in Upstream Exploration and Production and Investment/Advisory sector. He worked for BP from 1993 to 2011, holding a number of VP and global/regional business roles. He was then OMV Group Senior Vice President for E&P in NW Europe, Africa and Australasia from 2011 to 2017. In 2017 he co-founded First Alpha Energy Capital, investing in Upstream E&P and Energy Services, Technology and Equipment sectors and in 2021 he co-founded Talaria Technology, providing smart sensors focused on assisting offshore wind energy and carbon storage. Mr Latin chairs the Company's Remuneration Committee. He has agreed to assume the role of Chair of the Board following this year's AGM.

Committees: Remuneration Committee (Chair), Health Safety & Environmental Committee, Nominations and Corporate Governance Committee, Sustainability Committee and Reserves Committee.

Jerome Schmitt, Independent Non-Executive Director joined the Board on 1 July 2022. Mr Schmitt has over 30 years' experience in the energy and mobility sector, with particular emphasis across Finance, Sustainability and Business streams. Mr Schmitt was the Head of M&A and Chief Sustainability officer at TotalEnergies and Chairman of OGCI Executive Committee until 2021. He was responsible for developing and financing gas value chain projects in Middle East & Asia and created and led the Net Zero Businesses division of TotalEnergies. Mr Schmitt chairs the Sustainability Committee.

Committees: Sustainability Committee (Chair).

Michiel Soeting, Independent Non-Executive Director joined the Board on 1 February 2023. Mr Soeting is a chartered accountant, qualified in both the Netherlands and the United Kingdom, he has extensive financial expertise, strong governance, risk management and regulatory compliance experience. Mr Soeting has over 30 years' experience in the audit and financial service sector, he was the former global lead partner and global head of energy & natural resources at KPMG.

Committees: Audit Committee and Reserves Committee.

Robert Lawson, Non-Executive Director joined the Board on 23 March 2023. Mr Lawson spent a large part of his career with BP in various roles including Commercial Vice President for BP’s Refining and Marketing Segment then becoming the Global Head of Mergers and Acquisitions. In 2022, Mr Lawson joined Mercuria Energy Group as Executive Vice President and a member of its board.

Committees: Nominations and Corporate Governance Committee.

Guillaume Vermersch, Non-Executive Director joined the Board on 23 March 2023. Mr Vermersch started his career with Arthur Andersen in Paris. His career includes roles at ING/BBL Bank and CIB in Geneva and Paris and as head of the Credit and Finance Risk department of Sempra Oil Trading for Europe and Asia where he was responsible for defining, implementing and monitoring the full scope of the Sempra Energy credit and financial strategies, from trading business requirements to banking, finance and risk management responsibilities to support the oil and energy division’s expansion. He is the group chief financial officer and a group board member of Mercuria Energy Group

Committees: Audit Committee.

DIRECTORS' REPORT

The Directors of the Company present their report and the Group financial statements of Serica Energy plc ("Serica" or the "Company") for the year ended 31 December 2022.

Principal Activities

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

Business Review and Future Developments

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

Engagement with Employees, Suppliers and Customers

Information regarding Serica's engagement with employees, suppliers and customers is included in the Directors' statement under Section 172 of the Companies Act 2006 on pages 52 to 54.

Results and Dividends

The profit for the year was £177,796,000 (2021: £79,294,000).

The Directors are recommending the payment of a final dividend by the Company of 14.0 pence per share for the year to 31 December 2022, see note 13 (2021: 9.0 pence per share). Subject to shareholder approval at the AGM, this will be payable on 27 July 2023 to shareholders registered on 30 June 2023 with an ex-dividend date of 29 June 2023.

Following the year end, the Directors became aware that certain dividends paid in 2022 had been made otherwise than in accordance with the Companies Act 2006, section 838, because interim accounts had not been filed at Companies House prior to payment. It is important to note that the Company has had sufficient distributable profits at the time each relevant dividend was paid and therefore did not pay out by way of dividends more income than it had, and no payments were made out of capital. Relevant dividends were the final dividend paid in July and the interim dividend paid in November. A resolution will be proposed at the Annual General Meeting to be held on 29 June 2023 to remove any right that the Company may have had to claim from shareholders or Directors or former Directors for repayment of these amounts by entering into deeds of release in relation to any such claims. This will, if passed, constitute a related party transaction under IAS 24. The overall effect of the resolution is to return the parties so far as possible to the position they would have been in had the relevant dividends been made in full compliance with the Act. The amounts for dividends included within the financial statements have not been restated as the financial resources had left the Company and the intention of the resolution to be passed will be to remove any right for the Company to pursue shareholders or directors for repayments.

Financial Instruments

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

Events Since Balance Sheet Date

On 23 March 2023, Serica completed the acquisition of Tailwind Energy Investments Ltd. See note 31 for further information.

Directors and their Interests

The following Directors have held office in the Company since 1 January 2022 to the date of this report:

Antony Craven Walker
Ian Vann (retired 30 April 2022)
Mitch Flegg
Trevor Garlick
Malcolm Webb
Kate Coppinger
Andrew Bell
Richard Rose (resigned 21 June 2022)
David Latin
Jerome Schmitt (appointed 1 July 2022)
Michiel Soeting (appointed 1 February 2023)
Robert Lawson (appointed 23 March 2023)
Guillaume Vermersch (appointed 23 March 2023)

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

	Class of share	Interest at end of year	Interest at start of year (or date of appointment if later)
Antony Craven Walker (1)	Ordinary	7,357,694	7,357,694
Mitch Flegg	Ordinary	184,445	184,445
Andrew Bell	Ordinary	18,709	18,709
Kate Coppinger	Ordinary	-	-
Trevor Garlick	Ordinary	-	-
David Latin	Ordinary	-	-
Jerome Schmitt	Ordinary	-	-
Malcolm Webb	Ordinary	64,506	64,506

1. 6,448,810 ordinary shares were held by Antony Craven Walker and 908,884 by Rathbones (pension funds).

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

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

Details of share awards that have been granted to certain Directors under the Serica Energy plc Share Option Plan 2005 ("Serica 2005 Option Plan") are included in note 27 to the Financial Statements. Details of share awards made during 2022 and up to 12 April 2023 under the Serica Energy plc Long Term Incentive Plan (the "LTIP") are also included in note 27.

Greenhouse gas ('GHG') emissions

Information regarding Serica's GHG disclosure is included in the Environmental, Social and Governance (ESG) section on pages 55 to 57.

Auditor

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

Disclosure of information to auditors

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

On behalf of the Board

Mitch Flegg
Director
12 April 2023

CORPORATE GOVERNANCE STATEMENT

Chair's Corporate Governance Statement:

The corporate governance section of our report explains how the Company's governance framework supports the principles of integrity, strong ethical values and professionalism integral to our business. As Non-Executive Chair of the Company, it is my responsibility to work with my fellow Board members to ensure that the Company embraces corporate governance and delivers the highest standards we can. It is within my role to manage the Board in the best interests of our many stakeholders. As a Board we believe that practicing good corporate governance is essential for building a successful and sustainable business. Good governance depends on strong and effective leadership and a healthy corporate culture, supported by robust systems and processes and a good understanding of risk. The Board has a comprehensive corporate governance framework, with clearly defined responsibilities and accountabilities to safeguard long-term shareholder value. This report, together with the reports of the Audit, Nomination & Corporate Governance, Remuneration, Reserves and Health, Safety & Environmental Committees, seeks to demonstrate our commitment to high standards of governance.

The Company adopts the Quoted Companies Alliance Corporate Governance Code 2018 (the 'QCA Code') which it believes to be the most appropriate recognised corporate governance code for the Company. The QCA has ten principles which the Company is required to adhere to and to make certain disclosures both within this report and on its website. The Company's website disclosures can be found at www.serica-energy.com.

The importance of a united Board working to ensure that the Company continues to deliver for its shareholders whilst maintaining high standards of employee welfare, safety, corporate governance and commitment to environmental issues is imperative to the continuing success of the business. During 2022 Ian Vann, Non-Executive Director and Richard Rose, Independent Non-Executive Director, stepped down from their positions, following which Jérôme Schmitt was appointed to the Board during 2022. Michiel Soeting has recently been appointed to the Board in February 2023. 2023 will be another transformational year for the Company and, with the acquisition of Tailwind Energy Investments Ltd, this has brought further changes to the Board with the appointment of Guillaume Vermersch and Robert Lawson in March 2023 under the terms of the Tailwind acquisition agreement.

The importance of maintaining strong relationships and engaging with our shareholders continues and underpins the success of the business. The Board strives to ensure that there are numerous opportunities for investors to engage with both the Board and Executive Directors. During 2022 the Board welcomed shareholders in person at the Annual General Meeting after two years when the Annual General Meeting was held as a closed meeting due to Covid-19. The Executive Directors were available to meet with shareholders and analysts following the Company's interim and final results. The Company also held a General Meeting in early 2023. This provided shareholders with an opportunity to raise questions in connection with the Company's acquisition of Tailwind Energy Investments Ltd and to vote in favour of the acquisition.

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

Principles	Serica Response
Establish a strategy and business model which promote long-term value for shareholders	The Company operates in a sector that is exposed to political, operational, commercial, product pricing and hazard risks. Its strategy is to manage risks, financial capacity and growth opportunities through an active programme of new investment, acquisition and divestment to balance risk and potential whilst optimising operating costs and procedures to improve performance and identifying new technologies that can enhance value. The Company seeks a forward looking, professional and safety conscious culture in all that it does to provide an environment for the benefit of all stakeholders.
Seek to understand and meet shareholder needs and expectations.	The Company engages with shareholders at the Annual General Meeting and after the announcements of interim and final results. It also regularly presents at investor events. During 2022, the Company engaged as best as possible with stakeholders through online forums, and was also able to hold a face to face investor event. The Chair of the Company and the Senior Independent Director are available at any time to address any shareholder concerns.
Take into account wider stakeholder and social responsibilities and their implications for long-term success	The Company seeks to be a responsible corporate citizen in all its areas of operation and is committed to maintaining a high standard of corporate governance. The Company publishes an Environmental, Social and Governance Report. There are also further details on pages 55 to 57 of this report.
Embed effective risk management, considering both opportunities and threats, throughout the organisation	The Company has an effective risk management framework, which is subject to oversight by the Audit Committee and the Board. See further details on page 44.
Maintain the Board as a well-functioning balanced team led by the Chair	Refer to further discussion of the Board structure and composition on pages 38 and 39.
Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	The complementary skills and experience of our Board and Executive Management team are included on pages 30 to 32. The Nomination and Corporate Governance Committee maintains oversight of the need to continually improve the depth of knowledge, experience and diversity at Board and Senior Management level.
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Refer to discussion of Board evaluation on page 39.
Promote a corporate culture that is based on ethical values and behaviours	The Company has a zero-tolerance approach to bribery and corruption and has an Anti-Bribery Policy in place to protect the Company, its employees and those third parties with which the business engages. Employees have each partaken in Anti-Bribery training and assessment.
Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	Refer to further discussion of the Company's governance structures, including matters reserved for the Board, on page 40.
Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	The Company's financial and operational performance is summarised in the Annual Report and the Interim Report, with regular updates provided to stakeholders in other forums through the year, including press releases and regular updates to the Company's website.

CORPORATE GOVERNANCE FRAMEWORK

Governance Structure

The Board of Directors acknowledge the importance of corporate governance, believing that the QCA Code provides the Company with the right framework to maintain a strong level of governance.

The Board retains ultimate accountability for ensuring that the Company has a robust governance framework in place, ensuring that governance is appropriately embedded throughout the business. The Company holds regular Board meetings at which financial, operational, risk and other reports are considered and, where appropriate, voted on. The Board Committees provide regular updates at the meeting. The Board is responsible for the Group's strategy, performance, risk, key financial and compliance issues, approval of any major capital expenditure and the framework of internal controls.

The Chair has overall responsibility for the management of the Board, which in turn oversees the Company's strategy and operational and financial performance, and manages business requirements through a formal schedule of matters reserved for decision making. An annual rolling Board agenda helps ensure that matters of governance are addressed throughout the year.

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to executive management. The Board is responsible for monitoring the activities of the executive management. There are a total of 11 directors of which six are Independent Non-Executive Directors one of whom (Malcolm Webb) acts as Senior Independent Director who provides additional support to the Chair. The Chair has the responsibility of ensuring that the Board discharges its responsibilities and is also responsible for facilitating full and constructive contributions from each member of the Board in determination of the Group's strategy and overall commercial objectives. In the event of an equality of votes at a meeting of the Board, the Chair has a second or casting vote.

The Company is committed to a corporate culture that embraces equal opportunity, diversity, social responsibility, safety and commitment to the environment and is based on sound ethical values and behaviours and it seeks to instil these values across the organisation as a whole. The Company promotes its commitment through its public statements on its website, in its report and accounts, ESG report and internally through its communications to its employees and other stakeholders.

The Company has adopted a code of dealings in securities which the Board regards as appropriate for an AIM listed company and is compliant with the UK Market Abuse Regulations. The Company takes all reasonable steps to ensure compliance by the Directors, employees and agents with the provisions of the AIM rules relating to dealings in securities.

The Directors acknowledge the importance of ensuring that the Company, its employees and those third parties with which the business engages are operating within the requirements of the Bribery Act. The Company has a zero-tolerance approach to bribery and corruption and has adopted an anti-bribery policy to protect the Group, its employees and those third parties with which the Company engages. An online training session is adopted by the Company to ensure that all employees and the Board are compliant with the anti-bribery policy.

Board Composition

As at 31 December 2022, the Board of the Company consisted of the Non-Executive Chair, the Chief Executive Officer, Chief Financial Officer and six Independent Non-Executive Directors. The Chair and Malcolm Webb, as the senior Independent Non-Executive director, along with the other Independent Non-Executive Directors ensure that the Board remains independent. All the Independent Non-Executive Directors are independent in character and judgement. Following the retirement as directors of Ian Vann and Richard Rose in 2022, the appointment of Jérôme Schmitt in 2022 and Michiel Soeting in 2023 continues to provide the Board with a wide range of experience and calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group. The appointments of Rob Lawson and Guillaume Vermersch as Non-Executive Directors in March 2023 following the Company's acquisition of Tailwind Energy Investments Ltd strengthen the Board further.

Board Committees and Structure

The Board has the following Committees: Nomination & Corporate Governance Committee, Audit Committee (including Reserves Committee), Health, Safety and Environmental Committee and Remuneration Committee. More recently, the Company has established a Sustainability Committee. All Committees operate under clearly defined terms of reference to ensure proper functioning and effective application of best practice. The Committee terms of reference are reviewed by the Committees and by the Board on an annual basis. Committees are required to report back to the Board following a Committee meeting.

More detailed information of each Committees can be found on pages 42 to 51.

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. The effectiveness of the Board, director and senior management appointments and the Company's succession planning is evaluated on a regular basis.

Antony Craven Walker
Non-Executive Chair
12 April 2023

BOARD EVALUATION/REVIEW OF THE BOARD'S EFFECTIVENESS

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

As set out in our report last year, it was recognised that, with the expansion of the Board in parallel with the growth of the Company's activities and the need to meet the requirements of the QCA Code, a formal evaluation process for each of the Board, its Committees, the Independent Non-Executive Directors and Non-Executive Directors should be conducted. Performance evaluations of the Board and of each of its Committees were undertaken last in 2020. The Chair conducted a performance evaluation with each of the Independent Non-Executive Directors in 2022 with assistance from the Senior Independent Non-Executive Director, the results of which were entirely satisfactory. The next regular evaluation of the Board and its Committees will be performed this year.

During 2022, the Independent Non-Executive Directors, amongst other things, agreed that Board meetings should place more focus on providing a varied agenda for each Board meeting, a stronger focus by the Board was required on risk management, that there should be more interface with senior VP's and that a succession plan for Executive Directors and Independent Non-Executive Directors was required.

There is a strong flow of communication between the Directors, and in particular between the Chief Executive Officer, Chief Financial Officer and the Chair, with consideration being given to the strategic and operational needs of the business. Comprehensive board and committee papers are circulated in advance of meetings, giving Directors due time to review the documentation and enabling an effective meeting. Minutes are drawn up to reflect the true record of the discussions and decisions made. Resulting actions are tracked for appropriate delivery and follow up.

The Directors have a wide knowledge of the Company's business and understand their duties as directors of a quoted company. The Directors have access to the Company's Nominated Adviser (Nomad), auditors and solicitors as and when required. The Company's Nomad provides annual board room training. These advisors are available to provide formal support and advice to the Board from time to time and do so in accordance with good practice.

The Company Secretary helps keep the Board up to date with developments in corporate governance and liaises with the Nomad on areas of AIM requirements. The Company Secretary has frequent communication with the Chair, Chief Executive Officer, Chief Financial Officer and chairs of the Committees and is available to other members of the Board as required. The Directors are also able, at the Company's expense, to obtain advice from external advisers if required.

The Board is mindful of the need for succession and diversity planning when making Board changes and is actively putting this in place with two new appointments made in the last twelve months with full consideration of diversity aspects where this is possible and uses independent external advisers to help the Board meet these objectives. The Nomination & Corporate Governance Committee regularly monitors the requirements for succession planning and Board appointments to ensure that the Board is fit for purpose and keeps pace with the evolution of the Company. The assistance of an external recruitment advisor was used to make recent Independent Non-Executive Director appointments and, if assistance with recruitment is required by the Committee, this will continue to be made available.

The Nomination & Corporate Governance Committee is mindful of the Board's performance and composition together with the performance of individual Directors and senior management.

Matters Reserved for the Board

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

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

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

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

<u>Internal Controls</u>
Ensuring maintenance of a sound system of internal control and risk management including regular risk review.

Finance

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

Contracts

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

Communications

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

Board membership and Succession Planning

Director appointments and succession planning for the Board and senior executives is evaluated on a regular basis commensurate with good corporate governance practice on diversity, experience and skills and the evolving needs of the Company.

Remuneration

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

Delegation of Authority

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

Corporate Governance Matters

Review of the Company's overall corporate governance arrangements.

Other

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

Directors' attendance at meetings

The Directors' attendance at Board meetings and Board committees during 2022 is detailed in the table below:

Director	**Board**	**Ad Hoc**	**Audit**	**Remuneration**	**Nomination & Corporate Governance**	**HSE**	**Reserves**
A Craven Walker (Chairman of the Board)	10*	7	-	-	4	-	-
I Vann**	3	2		4*	-	2	1
M Flegg	10	7	-	4^	-	3	-
M Webb	10	6	2	6	4*	-	-
T Garlick	9	6	4	-	4	4*	1*
K Coppinger	10	6	4*	6	-	-	-
R Rose**	4	2	2	-	-	-	-
A Bell	9	6	4^	-	-	-	-
D Latin	10	5	-	5*	-	4	1

J Schmitt***	5	4					
M Soeting***							
Total meetings	**10**	**7**	**4**	**6**	**4**	**4**	**1**

Notes:

The Chair, Chief Executive Officer and Independent Non-Executive Directors attended a number of meetings of Committees of which they were not members during the course of the year at the invitation of the Comittee chair.

*Chair

^Invitee

** Ian Vann resigned from the Board on 30 April 2022 and Richard Rose resigned from the Board on 21 June 2022.

*** Jérôme Schmitt joined the Board on 1 July 2022 and Michiel Soeting joined the Board on 1 February 2023.

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE REPORT

The Nomination and Corporate Governance Committee assists the Board in the oversight of Corporate Governance at Board level. The Company follows the Corporate Governance Code of the Quoted Companies Alliance, of which it is a member. The Committee is also responsible for overseeing succession plans and their implementation for the Board and Executive Team.

Following recent Board appointments with the acquisition of Tailwind the Committee's membership was reviewed and now comprises Malcolm Webb (Senior Independent Non-Executive director and Committee Chair), David Latin (Independent Non-Executive Director), Antony Craven Walker (Non-Executive Chair of the Company) and Robert Lawson (Non-Executive Director).

The Committee met formally four times during 2022, and has, so far, met three times in 2023.

Independence of Non-Executive Directors

The Committee and the Board are satisfied that each Independent Non-Executive director of the Company remains independent and continues to have sufficient time to discharge their responsibilities to the Company.

Board changes

Antony Craven Walker transitioned from Executive Chair of the Company to Non-Executive Chair in July 2022. Ian Vann retired from the Board in April 2022 and Richard Rose stepped down from the Board in June 2022. Jérôme Schmitt was appointed as an Independent Non- Executive Director in July 2022 and Michiel Soeting was appointed as an Independent Non-Executive Director in February 2023. Guillaume Vermersch and Robert Lawson were appointed as Non-Executive Directors in March 2023, pursuant to the terms of the Tailwind acquisition agreement.

During 2022 the activities of the Committee included:

- continued review of succession planning at Board and Senior Executive level and assisting in appointments to the Board as part of this ongoing process.
- supporting the transition of Antony Craven Walker from Executive Chair to Non-Executive Chair of the Board.
- facilitating meetings of the Independent Non-Executive Directors and Non-Executive Directors.
- reviewing and overseeing the release of a new Whistleblower Policy.
- Assisting in the Director evaluation process which was conducted early in the year.
- launching a review of the terms of reference ('TOR's) of all Board Committees with a view to updating all TOR's in Spring 2023.

Looking forward, the Committee will continue to monitor and advise the Board on Corporate Governance and succession planning and expects to see further Board and Senior Executive appointments in 2023 as the Company's needs evolve. An evaluation of the Board and each Board Committee will also be undertaken in accordance with our established timetable for such evaluations.

Malcolm Webb
Chair of the Nomination and Corporate Governance Committee
12 April 2023

AUDIT COMMITTEE REPORT

Purpose and Responsibilities

The Audit Committee is a standing committee of the Board and reviews and makes recommendations to the Board on all material financial decisions affecting the Company, including:

- any change in accounting policies
- decisions requiring a major element of judgement and risk
- compliance with accounting standards and legal and regulatory requirements
- disclosures in the interim and annual report and financial statements
- reviewing the integrity of the Group's financial and internal controls
- any significant concerns of the external auditor about the conduct, results or overall outcome of the annual audit of the Group
- any matters that may significantly affect the independence of the external auditor

An essential element of the integrity of the financial statements concerns the key assumptions and judgments to be made. The Committee reviews key judgments prior to publication of the financial statements at both the end of the financial year and at the end of the six-month interim period, as well as considering significant issues throughout the year. In particular, this includes reviewing any subjective material assumptions within the Group's activities to enable an appropriate determination of asset valuation, provisioning and the accounting treatment thereof. The Committee reviewed and was satisfied that the judgments exercised by management on material items contained within the Report and Financial Statements are reasonable.

Membership

Following recent Board appointments with the acquisition of Tailwind the Committee's membership was reviewed and now comprises Kate Coppinger (Committee Chair), Michiel Soeting and Guillaume Vermersch, all of whom are Independent Non-Executive Directors. Richard Rose retired from the Committee in June 2022 on leaving the Company, at which time Malcolm Webb joined the Committee, subsequently retiring from the Committee in April 2023. Trevor Garlick also retired from the Committee in April 2023.

The Committee meets at least four times a year (it has met four times so far in 2023) and also holds private sessions with management and with the external auditor without management present whenever it deems it appropriate to do so.

2022 activities:

- The Committee spent considerable time during the year reviewing the financial reporting judgements and key accounting estimates associated with the Company's full and half-year results.
- A Review of the Taskforce for Climate-related Disclosures ("TCFD") was conducted alongside monitoring of the implementation of scenario analysis.
- The Committee reviewed and gave advice regarding the Company's risk management policies and systems including those relating to product price hedging.
- The Committee reviewed the Company's existing systems of financial control. This review involved assessing the Group's internal control and risk management policies and systems and their effectiveness. The recommended improvements were implemented.
- The Committee was satisfied that the Group does not currently require an internal audit function, although this will be kept under review as the Company continues to grow.
- The Committee considered the spread of risk between the Company's banks to keep in line with the Company's current Treasury and Cash Management Policy

and reviewed and suggested changes to that Policy, which were duly implemented.
- The Committee reviewed and made recommendations to the Board regarding dividends and other payments which could be made to shareholders by the Company during the course of the year.
- The Committee reviewed the findings of the Reserves Committee.

External Auditors

The external auditors, EY, were re-appointed in 2022 at the Company's annual general meeting. The Serica Group fee to EY for the financial year to 31 December 2022 is £404,000. The Audit Committee undertakes a comprehensive review of the quality, effectiveness, value and independence of the audit provided by EY each year.

The Committee are comfortable that EY's audit remained independent during the year. The current audit partner having served for 5 years will be succeeded by another partner for the next audit. In 2023, the Committee introduced an Audit Tender Policy which requires a tender process to be run every 10 years with effect from 2018 when the Company underwent a major and transformative change in its size and the scope of its operations.

2023 looking forward:

The Committee, will continue to work according to its Terms of Reference, and in particular:

- Keep under review the Company's existing control framework.
- Ensure that risk management procedures and controls over financial reporting remain appropriate.
- Continue to assess the Company's hedging policy and practice.
- Continue to adhere to the Quoted Companies Alliance Corporate Governance Code, Audit Guide.
- Review the Taskforce for Climate-related Disclosure ("TCFD") recommendations and include appropriate disclosures within the Annual Repost and other publications.
- Consider whether a dividend or other payments should be made to shareholders.
- Undertake a review of its Terms of Reference.

Kate Coppinger
Chair of the Audit Committee
12 April 2023

RESERVES COMMITTEE REPORT

The Reserves Committee is a sub-committee of the Audit Committee. The Committee's purpose is to review the reports of the independent reserves auditor which require that the Board discuss the reserves reports with the independent reserves auditor or delegate authority to a reserves committee comprised of at least two Independent Non-Executive Directors.

The Committee comprises of Trevor Garlick (Independent Non-Executive director and Committee Chair), David Latin (Independent Non-Executive director), Mitch Flegg (Chief Executive Officer of the Company) and from April 2023 Michiel Soeting. The Committee met once in 2022 and typically meets once a year prior to publication of the annual results.

2022 activities:

- Worked with reserves auditor, RISC Advisory who calculated the reserves in respect of each field.
- Met with management and the qualified reserves auditor to review the reserves data and the auditor's annual reserves report.
- Reviewed and recommended to the Board approval of the content and filing of the Company’s annual statement of reserves data and other oil and gas information.

2023 looking forward:

Make a recommendation to the Board (via the Audit Committee) regarding the Company’s annual statement of reserves data and other oil and gas information.

Trevor Garlick
Chair of the Reserves Committee
12 April 2023

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE REPORT

The Health, Safety and Environmental Committee provides assurance to the Board on occupational health, safety and environmental leadership. It is primarily focused on ensuring that HSE policies are adopted and applied across the Group. Environmental, Social and Governance (ESG) assurance also until recently fell under the Committees remit, however a separate Sustainability Committee has been established focusing primarily on monitoring environmental performance, tracking our emissions reduction action plan projects (ERAP), ESG reporting and reviewing investment options in the energy transition sector.

The Committee comprises of Trevor Garlick (Independent Non-Executive director and Committee Chair), Mitch Flegg (Chief Executive Officer of the Company) and David Latin (Independent Non-Executive director) who joined the Committee in 2022. The VP Operations and VP ESG and Business Innovation are invited to attend the meeting and present their reports.

During 2022, the Committee has met quarterly to discuss matters pertaining to Health, Safety and Environmental issues. The Committee consider all the Company’s operations, ensuring that adequate HSE policies are adopted and applied across the Group and the Safety Leadership of both Management and the workforce is visible and impactful.

2022 activities:

- Evaluated HSE performance against industry standards and acted on Regulator feedback.
- Monitored interactions with the HSE inspector and ensured that the relationship with the Regulator is constructive and responsive.
- Monitored delivery of HSE performance against the HSE and Risk Management Plan at each meeting.
- Monitored HSE performance of personal and process safety metrics, looking at both leading and lagging indicators

- Reviewed major and reportable HSE incidents that occurred, investigations and lessons learned at each meeting.
- Reviewed Maintenance Backlogs and the Plan to address the backlog at each meeting.
- Monitored environmental performance and emissions management and the ERAP submission to NSTA.
- Reviewed various energy transition projects.
- Agreed with the Renumeration Committee the HSE performance metrics linked to the Company bonus scheme.
- Reviewed the Committee Terms of Reference.

2023 looking forward:

During 2023, the Committee plans to continue to review the on-going HSE procedures and culture, evaluate HSE performance against our internal plan and industry standards, evaluate performance against the internal 2023 plan, agree a HSE bonus scorecard for 2023 to be linked to the Company bonus scheme for 2023 and ensure that the HSE policy and procedures remain effective. The Committee also shall continue to monitor progress against the maintenance backlog campaigns.

The new Sustainability Committee shall focus on ESG transparency, reviewing potential Energy Transition projects and monitor the Company plans to reduce carbon intensity and emissions.

Trevor Garlick
Chair of the Health and Safety and Environmental Committee
12 April 2023

DIRECTORS' REMUNERATION REPORT

The Remuneration Committee

The Remuneration Committee is a standing Committee of the Board and meets regularly to consider all material elements of remuneration policy, share schemes, the remuneration and incentivisation of Executive Directors and senior management and to make recommendations to the Board on the framework for executive remuneration and its cost. The Committee assists the Board in discharging its oversight responsibilities relating to the attraction, compensation, evaluation and retention of Executive Directors and key senior management employees. The Committee aims to ensure that the Company has the right skills and expertise needed to enable the Company to achieve its goals and strategies and that fair and competitive compensation is awarded with appropriate performance incentives across the Company.

The Committee comprises David Latin (Independent Non-Executive Director and Committee Chair), Kate Coppinger (Independent Non-Executive Director) and Malcolm Webb (Independent Non-Executive Director). The Committee met six times in 2022.

The Committee invites the Chief Executive Officer to attend meetings to provide business context, but he is not present when his own remuneration is discussed. During the year the Committee appointed independent advisors, FIT Remuneration Consultants LLP (FIT), to provide external support. FIT is a founding member of the Remuneration Consultants Group and are signed up to its Code of Conduct. FIT provides no other services to the Company.

Consideration by the Directors of matters relating to Directors' remuneration

The Committee is responsible for making recommendations to the Board on the framework for the remuneration of the Executive Directors and other members of executive management. The Committee works within its terms of reference, and its role includes:

- Reviewing the Company's overall compensation philosophy and programs.
- Determining and recommending to the Board, the remuneration policy for all Executive Directors and, under guidance of the Executive Directors, other members of the Executive Management Team.
- Ensuring executive remuneration packages are competitive.
- Determining the structure of the annual bonus plan, whether annual bonus payments should be made and approving payments to the Executive Directors.
- Determining each year whether any awards/grants should be made under the incentive schemes and the value of such awards.
- Considering long-term incentive (LTIP) scheme awards and performance criteria.
- Agreeing service contracts and notice periods.

The Company is committed to maintaining an open and transparent dialogue with shareholders on all aspects of Remuneration within the Group.

The Committee's activities in relation to 2022 and early 2023:

- Agreed the targets for the 2022 cash bonus scheme.
- Advised on fees to be included in the Appointment Letter for the Non-Executive Chair upon termination of Antony Craven Walker's Service Contract as Executive Chair with effect from 30 June 2022 and his appointment as Non-Executive Chair with effect from 1 July 2022.
- Agreed the 2022 Executive Director salary increases.
- Approved the grant of LTIP awards for 2022.
- Approved a Sharesave Scheme invitation 2022.

- Approved the vesting of performance awards granted in 2019.
- Approved the outcome of the 2022 cash bonus (to all employees) and the discretionary executive bonus.
- Discussed a review of pay according to job groupings across the Company and was satisfied that there exists no gender pay gap.
- Made a change to the measurement of the performance condition of the 2022 LTIP award under the LTIP Plan to ensure that performance is measured over the full three-year vesting period.

Looking forward to 2023, we anticipate the following:

- A review of the competitiveness of the remuneration of the Executive Directors (and other members of the Executive Management Team) pay in relation to a material change in size, scope and complexity of the business following the Tailwind acquisition.
- Reviewing and agreeing the 2023 bonus measures including the Chief Executive Officer and Chief Financial Officer scorecard.
- Considering and agreeing a programme for the grant of any LTIP awards for 2023 and the appropriate performance measures and targets.
- Considering developments in market practice and corporate governance.
- Considering a Share Save scheme invitation for 2023.

Executive Directors' service contracts.

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

Director	**Effective term**	**Notice period**
Antony Craven Walker*	1 July 2015 – 30 June 2022	6 months from Executive 12 months from Company
Mitch Flegg	21 November 2017	6 months from Executive 12 months from Company
Andy Bell	3 September 2021	6 months from Executive 6 months from Company

Mr Craven Walker's Service Contract as Executive Chair was terminated on 30 June 2022 in accordance with the terms of the contract. Following the contract termination, he became a Non-Executive Director and Non-Executive Chair.

Executive remuneration

The table below sets out the single total figure of remuneration and breakdown for each Executive Director paid for the 2022 financial year.

	Antony Craven Walker*	**Mitch Flegg**	**Andy Bell**
Salary	£490,000	£523,000	£328,000
Annual Bonus	Nil	£422,750	£246,000
Benefits	Nil	£522	£1,164
Pension	Nil	£68,188	£42,764
Total	£490,000	£1,014,460	£617,928

*Mr Craven Walker's Service Contract as Executive Chair was terminated on 30 June 2022 in accordance with the terms of the contract. The pay shown in the table above relates to his period of service as an Executive from 1 January 2022 to 30 June 2022 (£245,000) plus payment in lieu of notice (£245,000) for the balance of the year in accordance with the terms of the Service Contract.

Mr Craven Walker receives no pension contribution or cash in lieu or any other benefits.

Mr Flegg receives cash in lieu of his entitlement to pension contribution.

Mr Bell receives cash in lieu of his entitlement to pension contribution.

ADDITIONAL DETAILS

Base salary

To reflect the increase in responsibility and complexity of his role, Mitch Flegg was awarded a base salary increase of 15% with effect from 1 January 2022. The increase for Andy Bell was 13%. There was no increase in Antony Craven Walker's base salary during the period he was Executive Chair. The average increase for all other employees in 2022 was 5.9%

Annual Bonus

For 2022, the annual bonus was based on a scorecard of measures featuring HSE/ESG, production projects and M&A for the Chief Executive Officer and financing, TCFD implementation and M&A for the Chief Financial Officer.

Progress against the scorecard was assessed by Committee, taking into account input from the HSE Committee and other independent directors as appropriate. When determining performance, the Committee considered a number of quantitative and qualitative factors which included, for example, overall safety performance and carbon dioxide emissions.

The Committee determined that the annual bonus for 2022 should be 80.83% of salary for the CEO and 75% of salary for CFO. The former Executive Chair did not receive an annual bonus for 2022.

Long Term Incentive Plan

The Company operates the Serica Energy Plc Long Term Incentive Plan (the "LTIP"), which was adopted by the Board on 20 November 2017 which permits the grant of share-based awards.

Performance Share Awards were granted in 2022 at 100% of salary for the Executive Chair, Chief Executive Officer and Chief Financial Officer) which were subject to the achievement of absolute share price performance over a three-year period (50% weighting) and carbon reduction targets to the period ending 31 December 2024 (50% weighting). Following feedback from some of our investors and their representatives, the Remuneration Committee has changed, with effect from the 2022 award onwards, the measurement of absolute share price. Share price performance will be assessed using the average share price over the final six months of the three-year performance period. The target range used for both measures includes a sliding scale with none of the award vesting at Threshold and rising pro-rata to full vesting for achieving the Maximum.

To enhance the alignment of interest between the share plan participants and our shareholders, from 2023 onwards any dividends awarded as notional shares to vested LTIP share holdings will be added to the original LTIP holding and used to calculate future awards of notional shares when dividends are paid.

The targets in respect of the 2019 Performance Share Awards were met and vested in full on 5 March 2022. All Performance Share Awards are structured as nil-cost options and may be exercised up until the tenth anniversary of the date of grant.

For earlier awards granted, please see last year's annual report as published on the company website.

Director	2022	2021	2020	2019 (vested in full)
Antony Craven Walker	138,300	587,349	386,100	411,067
Mitch Flegg	147,615	587,349	386,100	411,067
Andy Bell	92,576	306,210	224,478	234,308
	378,491	1,480,908	996,678	1,056,443

Performance Share Awards were granted in 2019, 2020, 2021 and 2022, were subject to different vesting criteria based on absolute share price performance over a three-year period. The awards granted in 2021 and 2022 were also subject to ESG performance targets to be met.

Following the Company's 8p per share dividend to shareholders in June 2022 and 9p per share dividend to shareholders in November 2022, dividend accrual amounts of 44,406 LTIP scheme interests (nil cost) were granted to both Mr Craven Walker and Mr Flegg and 25,310 LTIP scheme interests (nil cost) were granted to Mr Bell in relation to their respective 2019 PSA Plan awards that had fully vested in March 2022.

Mr Craven Walker's outstanding LTIP awards will be allowed to vest on their normal vesting date, subject to the achievement of the relevant performance conditions and time pro-rating for the period of service rendered.

THE CHAIR AND THE NON-EXECUTIVE DIRECTORS

2022 Non-Executive Director fees

Non-Executive Directors	**Director Fees (£)**	**Board Chair/Committee Chair Fees (£) ****
Antony Craven Walker	*	*
Ian Vann	16,666 **	3,333***
Malcolm Webb	50,000	10,000
Trevor Garlick	50,000	10,000
Kate Coppinger	50,000	10,000
Richard Rose	23,526	-
Jérôme Schmitt	25,000****	-
David Latin	50,000	6,666***

* Mr Craven Walker drew no Non-Executive Director or Chair fees in 2022. Following his appointment as Non-Executive Chair with effect from 1 July 2022 his annual fees for the role of Non-Executive Director and Non-Executive Chair are £50,000 and £125,000 per annum respectively. However, until July 2023 Mr Craven Walker has waived his entitlement to both the Non-Executive Director and Non-Executive Chair fees whilst receiving payment in lieu of the one year notice served under his Executive Service Contract.

** Ian Vann resigned as a Non-Executive Director on 30 April 2022 and Richard Rose stood down an an Independent Non-Executive Director on 21 June 2022. Fees for both Ian Vann and Richard Rose for 2022 are a pro-rata figure of the annual fee of £50,000.

***The Committee Chair fees for 2022 are pro-rata figures for both Ian Vann and David Latin.

**** Jérôme Schmitt was appointed as an Independent Non-Executive Director on 1 July 2022, his fees for 2022 are a pro-rata figure of the annual fee of £50,000.

David Latin
Remuneration Committee Chair
12 April 2023

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

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

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

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

Stakeholder engagement is a priority for the Board, with a view to obtaining a wide range of views and achieving a common understanding of the opportunities and challenges that underpin a long-term sustainable business plan.

Engagement typically takes place with stakeholders through both the Board and the senior management team. Outcomes are reported through to the Board to have a holistic understanding of all stakeholder positions, to balance competing interests and to take into account various views when making decisions.

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

Selective examples of the highlights in respect of each stakeholder group are set out below.

Employees

Our employees are one of the primary assets of our business and the Board recognises that our employees are the key resource which enables the delivery of Company's vision and goals.

We ensure that:

- Health, Safety and the Environment are considered paramount throughout the organisation (both on-shore and off-shore).
- Annual pay and benefit reviews are carried out to determine whether all levels of employees are benefitting fairly and to retain and encourage skills vital for the business.
- There is competitive pay and employee benefits.
- There is ongoing necessary training and development and career prospects available.
- There are freely available Company policies and procedures.
- Staff engagement surveys are conducted.
- Personal development reviews and work appraisals are conducted.
- Employees are informed of the results and important business decisions and are encouraged to feel engaged and to improve their potential. This is carried out with Company Town Hall meetings together with individual team and one to one engagement.
- Working conditions are favorable.
- Newsletters and management updates are provided.

- Team-building sessions and social events are arranged.

The Remuneration Committee oversees and makes recommendations of executive remuneration and any long-term share awards. The Board encourages management to improve employee engagement and to provide necessary training in order to use their skills in the relevant areas in the business. The Health, Safety and Environmental Committee reviews the health and safety measures implemented across the business on a quarterly basis and improvements are continuously recommended for better practice.

Suppliers, Customers and Regulatory Authorities

The Board acknowledges that a strong business relationship with suppliers and customers is a vital part of growth. Whilst day to day business operations are delegated to the executive management and the senior management team, the Board sets directions with regard to new business ventures. The Board upholds ethical business behaviour across all of the Company’s activities and encourages management to seek comparable business practices from all suppliers and customers doing business with the Company. We value the feedback we receive from our stakeholders and we take every opportunity to ensure that where possible their wishes are duly considered. The Board supported the Company’s adoption of the OEUK Energy Services Agreement that sets base terms for employees working offshore in the UK and promotes a ‘safe, stable and fair operating environment’.

Community and Environment

The Company runs an active community support programme through its committees; Charity and Fundraising, Education and Diversity and Inclusion. The Board is kept informed of events through monthly Board papers and regular HSE subcommittee meetings. Recently, the Board has put in place a dedicated Sustainability Committee, who focusses primarily on sustainability, environmental and social aspects of the Company. Staff and stakeholders are updated by various means such as the company newsletter, a weekly staff ‘round-up’ email, posts on social media – LinkedIn and Twitter, as well as staff HSE and sustainability meetings. The annual ESG report provides details of the Company’s social activities and is approved by the Board.

Improving environmental performance of the company and acting responsibly is a key Company objective and the Board receives monthly performance updates of key environmental metrics such as emissions, flaring and waste. More detailed updates are given in the HSE quarterly meetings, the recently formed Sustainability Committee and by in-person updates in the main board. The Board is regularly updated on the activities and progress of the Emissions Reduction Group and the offshore ESG Champions. Feedback from industry bodies and the Regulator is also provided via the Board committee meetings.

Maintaining High Standards of Business Conduct

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

The importance of making all employees feel safe in their environment is maintained and a Whistleblowing Policy is in place to enable staff to confidentially raise any concerns freely and to discuss any issues that arise. Strong financial controls are in place and are well documented. The Board regularly considers the key business risks and a risk matrix is discussed by the Board on a monthly basis.

Shareholders

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

The primary communication tool with our shareholders is through the Regulatory News Service, ("RNS") on regulatory matters and matters of material substance. The Company's website provides details of the business, investor presentations and details of the Board and Board Committees, changes to major shareholder information and QCA Code disclosure updates under AIM Rule 26. Changes are promptly published on the website to enable the shareholders to be kept abreast of Company's affairs. The Company's Annual Report and Notice of Annual General Meetings (AGM) are available to all shareholders. The Company also published its ESG report in 2022 which is available to all shareholders. The Interim Report and other investor presentations are also available on our website.

The Board acknowledges that encouraging effective two-way communication with shareholders encourages mutual understanding and better connection with them. Investor events are also arranged with shareholders throughout the year which present an opportunity for shareholders to speak with the Executive Directors in a formal environment and in more informal one to one meetings. By providing a variety of ways to communicate with investors the Company feels that it reaches out to engage with a wide range of its stakeholders.

On behalf of Board

Antony Craven Walker
Executive Chair
12 April 2023

Environmental, Social and Governance (ESG)

In 2022, Serica strengthened its position in ESG by making it a key part of the business process. This began at the start of the year by establishing an Energy Transition Engineering Advisor role who made real progress by embedding emissions reduction into the Company's business processes. The Bruce Emissions Reduction Action Plan now clearly lays out how we intend to bring down our operational emissions in line with the government's North Sea Transition Deal targets and this has been submitted to the regulator. The Serica ESG policy was published and incorporated into the Operating Management System, setting down in writing the Company's ambitions and commitment to ESG.

Serica continues to set ESG related targets on our operated facilities as part of our remuneration scheme for all staff and the 2023 ESG bonus related targets for the Bruce facilities are:

- Total flare below 5,000 tonnes
- Scope 1 CO_2 emissions below 200,000 tonnes

In the 2021 annual report, Serica committed to the following bonus related targets for 2022. Although absolute emissions were 4% over target, and this was reflected in the bonus payment, our carbon intensity (CO_2 emitted per barrel of oil equivalent produced) went down from 17.8 kgCO_2/boe in 2021 to 16.5 kgCO_2/boe in 2022.

2022 Commitment	2022 Outcome	Comments
Daily flaring below 9.5 tonnes/day	9.0 tonnes/day	On target
Total flare below 5,000 tonnes	5,850 tonnes (13,860 tonnes CO_2)	16% above due to operational upsets
Scope 1 CO_2 emissions below 210,000 tonnes	218,567 tonnes	3.5% over target due to higher production rates and a shorter maintenance period
General waste from Bruce platform 90 tonnes	90 tonnes	On target
60% waste recycled	47%	Below target due to increased waste to energy
Develop a methane action plan	Done	Plan written – aerial survey and enhanced monitoring

The Company's staff led ESG committees, Charity, Diversity and Inclusion, Education, Emissions Reduction and the Bruce ESG Champions have gone from strength to strength and their activities for 2022 were higher than ever. The Emissions Reduction Group, formed of onshore and offshore engineering and specialist staff, continued their focus. In 2022, the group worked on planning a temporary power project to reduce emissions during maintenance and progressed studies into flare gas recovery, utilising waste heat to save energy and electrification of gas turbines. The offshore based Bruce ESG Champions Committee work to generate and implement initiatives to help us lower emissions, improve efficiency, reduce waste volumes, and promote wellbeing offshore. Throughout the year they worked together to implement a reusable water bottle scheme, a digital newspaper service and trials of reusable alternatives. The Charity Committee partnered with the Mental Health Foundation and organised fundraising activities throughout the year, such as a cycle challenge, walking challenges and a mental health awareness day donation. They stepped up support for veterans, acknowledging the contribution they have made to our industry and the sacrifices they have made for the country. The committee established an active Armed Forces Support group who support charities that they believe to be beneficial to the wider veteran community. In 2022, the group supported Head Up, where we sponsored the founder who ran 5,000 miles around the UK coastline. They also supported causes close to the heart of our workforce, donating sports equipment to youth football and rugby teams, helping sponsor Serica individuals who were raising money and providing regular donations to foodbank and poverty alleviation charities.

The Company continued to work on minimising any biases associated in our recruitment process by working with external groups such as AFBE UK, Autism & Neurodiversity North Scotland and Four Pillars, who reviewed our recruitment policy, interview questions, and job descriptions/adverts. Serica redesigned our recruitment advertisements and use a gender de-coder to ensure gender neutral language is used. In 2022, the Company increased its proportion of women staff members by 7% compared to 2021. To continue to drive awareness and education, we organised sessions on Autism & Neurodiversity, LGBTQ+ terminology awareness and the Ethics of Ethnic Diversity.

The Education Committee supported schools through a variety of outreach work, such as supporting mock interview and CV writing workshops and providing outdoor learning packs to a local primary school. It continued our Summer Placement Programme and ran eight-week paid student placements for two students. Serica continue to support the OPITO apprenticeship scheme, providing over £250,000 of funding per year.

The Governance section outlines in detail the Company Governance framework and how Serica manages risk and ensure ethical practices. The Board has the appropriate skillsets to apply appropriate governance with backgrounds in business, legal, banking, finance, technical oil and gas and HSE. Serica is a member of the UN Global Compact and follows its ten guiding principles and aligns with TCFD reporting recommendations. The Company's operating management system ensures we have the appropriate policies to ensure ethical practices are followed.

Greenhouse Gas Emissions disclosure

In 2022 we reduced the carbon intensity on Bruce by 8% compared to 2021 through a combination of plant performance, close monitoring, and efficiency. Significant progress in clarifying how to meet the emissions reduction targets of the North Sea Transition Deal through the development of our Emissions Reduction Action Plan for Bruce. This sets out the project work required on our main sources of emissions, power generation and compression, and provides details on how the projects will be planned and executed. This document was submitted to government and demonstrates Serica's commitment to incorporating emissions reduction into our business plans.

As part of our ESG reporting, a detailed data book of our Scope 1 emissions for 2022 compared to previous years is provided in the Serica 2022 ESG report, which will be released with our published annual report. Scope 1 emissions are those generated by the Serica operated Bruce facilities to provide power and compression to produce and export oil and gas from the Bruce, Keith and Rhum fields. This includes fuel gas usage, diesel, flared and vented gas. The company does not own any vehicles.

The Bruce facilities qualifies for the UK Emissions Trading Scheme and so our emissions are reported, audited and verified based on this scheme. In 2022 Serica's UK ETS emissions were 218,567 tonnes of CO_2, which is within 5% of our 2021 emissions which were 208,868 tonnes. This continues efforts to keep emissions low and were around 10% lower than 2019. Energy consumption on Bruce in 2022 was 1,017 GWh compared to 975 GWh in 2021. Carbon intensity, which is CO_2 emissions divided by production, was 16.4 kg CO_2/boe in 2022 compared to 17.8 kg CO_2/boe in 2021.

The Company continued with its initiatives to reduce emissions on Bruce continuing with our AI based emissions monitoring software, adding more monitoring points on gas turbines and performing an energy savings audit on the platform.

The electricity usage in the Aberdeen operations headquarters was 16,950 kg of CO_2e for 2022 compared to 14,126 kg in 2021. The London office emissions were 3,736 kg of CO_2e for 2022 compared to 3,444 kg in 2021. Serica has continued with its blended working approach, giving staff more flexible working conditions, which will have the added benefit of keeping office emissions low. CO_2e was calculated using the UK Government GHG Conversion Factors for Company Reporting for 2022 issued by formally BEIS and DEFRA.

The 2022 ESG report, which is published along with our Annual Report, will provide more detail on our emission reduction activities and statistics as well as our plans for 2023.

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

The Directors are responsible for preparing the Strategic Report, the Director's Report and financial statements in accordance with applicable United Kingdom law and regulations and those UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Company law requires the Directors to prepare financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006. Under United Kingdom company law the Directors have elected to prepare the parent company financial statements in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and the profit or loss of the Group for that period.

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

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group and Company has complied with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance; and
- state whether the Group financial statements have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SERICA ENERGY PLC

Opinion

In our opinion:

- Serica Energy's plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;

- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;

- the parent company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act; and

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

We have audited the financial statements of Serica Energy plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise:

Group	Parent company
Group balance sheet as at 31 December 2022	Balance sheet as at 31 December 2022
Group income statement for the year then ended	Statement of changes in equity for the year then ended
Group statement of comprehensive income for the year then ended	Statement of cash flows for the year then ended
Group statement of changes in equity for the year then ended	Related notes 1 to 31 to the financial statements including a summary of significant accounting policies
Group statement of cash flows for the year then ended	
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards to the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included the following:

- we understood and walked through management's process and controls related to assessing going concern including discussion with management to assess whether all key factors were taken into account;

- we obtained the group's going concern assessment which includes the cash flow forecast and its liquidity position covering the period to 30 June 2024 (the going concern period) and confirmed that the method used in management's model is appropriate and checked the clerical accuracy of the model. Management's assessment included a base case and a downside scenario, which are described on page 75 and in the basis of preparation in note 2 to the financial statements;

- we evaluated the forecasted production profile, operating and capital expenditure and other key assumptions used in the going concern assessment for consistency with the business plans and information obtained through auditing other areas of the business. This included the impact of the acquisition of Tailwind Energy on the group's future cash flow forecasts, and the possible mitigation steps and assumptions regarding the availability of future liquidity. We also determined whether management's forecasts reflected the expected cash cost to Serica of executing plans aimed towards delivering the group's ESG and climate change commitments;

- we challenged the key assumptions included in the forecasts, with the most sensitive assumption being management's view on forecast oil and gas prices during the going concern period. We compared management's price assumptions with the most recently available price forecasts issued by a range of banks, brokers and consultants, which we obtained independently;

- we independently conducted a reverse stress test to determine the conditions under which the group could potentially experience a liquidity shortfall. We modelled an extreme hypothetical, downside scenario under which we assumed no revenues or cash inflows are generated by the legacy Tailwind assets throughout the going concern assessment period, but that the budgeted level of operating and capital expenditures for these assets were still incurred. Under this scenario, we also assumed that the group would be required to repay the entire amount drawn down under the RBL facility, replicating a covenant breach scenario;

- we obtained bank confirmations of the group's cash and cash equivalent balances as at 31 December 2022 and received bank statements to confirm the balances as at 28 February 2023;

- we obtained the RBL debt facility agreement, read and confirmed the terms of the facility, including the maturity date, redetermination mechanism and covenant calculations. We also confirmed the total amount available under the facility and the amount utilised as at the start of the going concern assessment period;

- we reviewed the performance during the first quarter of 2023 to identify any issues that may impact management's ongoing assessment;

- we assessed management's ability to forecast accurately based on their historical performance and, where management have experienced differences between forecasts and actuals (whether due to oil and gas prices or other factors), this has informed our view of the adequacy of the stress testing performed by management in their assessment;

- we also performed inquiries of those charged with governance, inquiries with members of management outside of the finance function, review of board minutes and other financial information to consider events or conditions beyond 30 June 2024 that may cast significant doubt on the entity's ability to continue as a going concern and compared their response to other information gathered during the course of our audit;

- we considered the likelihood of management's ability to execute mitigating actions, as required, to continue its business activities in the severe downside scenarios simulated in the sensitivity analysis; and

- we reviewed the appropriateness of management's going concern disclosures in describing the risks associated with its ability to continue as a going concern for the period to 30 June 2024 and to ensure such disclosures are in accordance with relevant standards.

Our Key Observations:

Applying conservative price assumptions and assuming an adverse scenario whereby the group's entire portfolio is shut-in and generating no revenues for six months, sufficient liquidity remains in management's sensitised forecast. Under an even more adverse forecast scenario, management eliminated all future revenues relating to legacy Tailwind assets, but still assumed operating and capital costs were incurred in line with budget. In this scenario, management's forecast showed that the group has access to sufficient liquidity through committed funding and other mitigating actions under management's control.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to 30 June 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of two components. • The components where we performed full scope audit procedures accounted for 99% of the profit before tax measure used to calculate materiality, 100% of revenue and 99% of total assets.
Key audit matters	• Assessment of commercial oil and gas reserves and their impact on the financial statements • Impairment of property plant and equipment related to Columbus
Materiality	• Overall group materiality of £11.7m, which represents 5% of normalised profit before tax excluding the impact of fair value movements on the BKR contingent consideration and commodity price swaps and one-off charge relating to North Eigg asset write down ("adjusted profit before tax").

An overview of the scope of the parent company and group audits

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the group. Taken together, this enables us to form an opinion on the group financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, the potential impact of climate change, and changes in the business environment when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the ten reporting components of the group, we selected two components covering entities within the UK, which represent the principal business units within the group.

For both of the components selected, we performed an audit of the complete financial information of the components ("full scope components") which were selected based on their size or risk characteristics.

The reporting components where we performed audit procedures accounted for 99% (2021: 99%) of the group's adjusted PBT measure used to calculate materiality, 100% (2021: 100%) of the group's revenue and 99% (2021: 99%) of the group's total assets.

The remaining eight components together represent 1% of the group's adjusted profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the group financial statements.

Involvement with component teams
All audit work performed for the purposes of the audit was undertaken by the group audit team.

Climate change

Stakeholders are increasingly interested in how climate change will impact Serica Energy plc. The group has determined that the most significant future impacts from climate change on their operations will be around decarbonisation, investment required to reduce carbon emissions and to improve energy efficiency. These are explained on pages 23 to 27 in the Task Force for Climate related Financial Disclosures and on pages 20 to 22 in the principal risks and uncertainties. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the group's business and any consequential material impact on its financial statements.

The group has explained in the Basis of Preparation in note 2 to the group financial statements how they have reflected the impact of climate change in their financial statements. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining financial statement impacts under the requirements of UK adopted international accounting standards.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 23 to 27 and whether these have been appropriately reflected in, where relevant, asset values where these are impacted by future cash flows and associated sensitivity disclosures, and in the timing and nature of liabilities recognised, following the requirements of UK adopted international accounting standards (see note 2 to the financial statements). As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Assessment of commercial oil and gas reserves and its impact on the Financial Statements *Refer to the Accounting policies section "Use of judgement and estimates and key sources of estimation uncertainty" (page 76)* The estimate of oil and gas reserves has a significant impact on the financial statements, particularly impairment assessments and the estimation of depreciation, depletion and amortisation ('DD&A') charges. As described in note 15 to the financial statements, oil and gas properties amounted to £265.7 million and have an associated DD&A charge of £76.9 million. The estimation of oil and natural gas reserves is complex as there is significant estimation uncertainty in assessing the quantities of reserves in place. If reserves are recognised that are not ultimately produced, DD&A will be understated, and the recoverable amount of assets may be overstated. Reserves are also a fundamental indicator of the future potential of the group's performance. Estimation uncertainty is further elevated given the transition to a	Our procedures included, amongst others: • confirming our understanding of the group's controls over their certification process for technical and commercial specialists who are responsible for reserves estimation by performing a walk through and assessing the design effectiveness of controls; • assessing the competence and objectivity of these specialists, to satisfy ourselves they were appropriately qualified to carry out the volume's estimation; • obtaining confirmation directly from management's third-party specialists that they are independent from Serica and have performed their procedures in line with the guidelines set out by the Society of Petroleum Engineers; • confirming that any material changes in reserves were made in the appropriate accounting period; • assessing, where relevant, whether life of field and cessation of production assumptions incorporated Serica's estimate of costs associated with the potential	We did not identify any exceptions as a result of our audit procedures. We confirmed that material changes in reserves volumes have been made in the appropriate accounting period and validated that the updated reserves estimates are included appropriately in the group's forecasts for impairment assessments and the calculation of DD&A. We consider the disclosures in the financial statements to be appropriate We confirmed that the significant revision to Columbus reserves has been reflected in the DD&A calculation for the year, in line with Serica's accounting policies.

low-carbon economy which could impact life-of-field assumptions and increase the risk of underutilised or stranded oil and gas assets. Also, given the estimation of oil and gas reserves is complex, there is a risk that inappropriate management bias influences the estimate.	impact of climate change and the energy transition; • validating that the reserves estimates were included appropriately as key inputs within the group's financial statements, including the determination of the recoverable amount of assets and accounting for DD&A. The above audit procedures were performed by the group primary team in respect of one full scope component, covering 100% of this risk amount.	
Impairment of property plant and equipment related to Columbus *Refer to the Accounting policies section "Use of judgement and estimates and key sources of estimation uncertainty" (page 76)* As described in note 15 to the consolidated financial statements, oil and gas properties recorded within property, plant and equipment (PP&E) amounted to £265.7 million as at 31 December 2022. Of this amount, £52.8 million related to Columbus. The balance sheet also includes a £4.0 million decommissioning provision and £38.0 net million deferred tax liability relating to Columbus. PP&E is assessed for impairment when facts and circumstances suggest that the carrying amount of an asset exceeds its recoverable amount (which is the higher of the estimation of Value in Use and Fair Value less Cost of Disposal). Potential indicators of impairment include a producing asset's operational performance and significant changes (reductions) in oil and gas reserve estimates and oil and gas prices. There is a risk that impairment indicators are not identified, and any resulting impairment tests are not performed on a timely basis. The asset recorded within PP&E that we assessed as having presented the highest risk of potential impairment was Columbus. Although oil and gas prices were relatively high during the year and at year-end,	Our procedures included: • confirming our understanding of the group's controls over the impairment assessment process by performing a walk through and assessing the design effectiveness of the controls; • obtaining management's assessment of whether any indicators of impairment were present across Serica's portfolio as at 31 December 2022; • challenging the validity and completeness of the indicators identified by management based on our understanding of the business, experience of auditing other oil and gas companies and knowledge gained from other areas of the audit. Also, we have considered the extent to which management's assertions in the impairment indicator assessment reflect the uncertainty associated with the energy transition; where indicators were identified (Columbus) and impairment tests were subsequently performed: • to test price assumptions, we compared future short and long-term commodity prices to consensus analysts' forecasts and those adopted by other oil and gas companies. We evaluated whether prices were used consistently across Serica; • we challenged the impact of the Columbus reserves downgrade and assessed whether this has	On the basis of our audit procedures, we are satisfied with management's identification of an impairment trigger relating to the Columbus asset, and no other assets, as at 31 December 2022. We challenged the assumptions applied by management in their impairment assessment, including consideration of where the values used fall within a reasonable range of assumptions that could have been applied. We are satisfied that the assumptions used by Serica are reasonable and highlighted to the Audit Committee that the Brent crude and NBP gas price assumptions, although reasonable, are relatively conservative compared to external benchmarks. Overall, we are satisfied that the results of management's impairment assessment are reasonable and that no impairment of Columbus is required as at 31 December 2022.

management identified the downward revision of reserves as an indicator of impairment as at 31 December 2022. Where impairment tests are performed, the most complex judgements in determining the recoverable amount of oil and gas properties are the estimation of future oil and gas price, both in the short term and the long term, and the estimation of oil and gas reserves. The estimation of future oil and gas prices is subject to increased uncertainty, given climate change and the energy transition on the demand for both crude oil and natural gas products. Where impairment tests are performed, there is a risk that management's oil and gas price assumptions are not appropriate, potentially leading to a material misstatement. A further management judgement relates to the estimation of oil and gas reserves as there is significant estimation uncertainty in the process of assessing the quantities of Serica's commercial reserves. We have described the risk within the assessment of commercial reserves and its impact on the financial statements key audit matter above.	been appropriately considered by management; • we assessed the economic performance of Columbus since commissioning against approved budgets, taking into account updated reserves estimates; • we challenged whether the post-tax nominal discount rates applied by Serica fell within a reasonable range by engaging our EY valuations specialists to independently determine a range of discount rates for Serica's portfolio; • we evaluated the tax cash flow assumptions applied in management's model and whether these appropriately reflected the expected impacts of the UK Energy Profits Levy introduced during 2022; • we assessed whether the cash flow forecasts tested as part of our audit of going concern, including the impact of price downside scenarios and sensitivity analyses, supported management's impairment assessment conclusions; and • the procedures we performed in relation to oil and gas estimates are described above within the Assessment of commercial oil and gas reserves key audit matter. The above audit procedures were performed in one component under full scope audit, covering 100% of this risk amount.	

In the prior year, our auditor's report included a key audit matter in relation to the valuation of gas hedging instruments. This was due to the level of hedging instruments held by the company and the impacts of significant price volatility experienced in 2021. In addition, the risk was elevated in the prior year by the restructuring of contracts held with one counterparty and the accounting implications of the change. In the current year, the exposure to hedging instruments was reduced because a large proportion of the remaining hedging contracts were settled during the year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £11.7 million (2021: £5.8 million), which is 5% (2021: 5%) of adjusted profit before tax. We believe that adjusted profit before tax, on a normalised basis, provides us with an appropriate basis for planning materiality for the current year audit. The increase in materiality is due to significant increases in the profitability of the group, driven by, amongst other things, a full year of production from R3 and Columbus in 2022 and higher oil and gas prices.

Our key criterion in determining materiality remains our perception of the needs of Serica's stakeholders. We consider which earnings, activity or capital-based measure aligns best with the expectations of the users of Serica's financial statements. In doing so, we apply a 'reasonable investor perspective', which reflects our understanding of the common financial information needs of the members of Serica as a group.

Consistent with our approach in the prior period, the financial measure on which we have determined materiality is adjusted profit before tax. We believe that adjusted profit before tax is the most appropriate measure upon which to calculate materiality as it represents a key performance indicator used by Serica's investors and is the expectation for a listed company that is generating profits.

Given the significant increase and volatility in commodity prices experienced throughout 2022, we determined that the basis of planning materiality should be normalised adjusted profit before tax. We normalised the 2022 adjusted profit before tax by applying the mid-long term expected commodity prices to the actual volumes sold during the period. Under auditing standards, the use of a normalised basis is appropriate where an entity's results are directly impacted by a significant change in the market price for a commodity whilst the underlying operating activity remains similar to previous years, provided this is viewed as a temporary change. In the second half of 2022, NBP gas prices have increased to unprecedented high levels and are forecast to decrease in the long term. By applying a normalised approach, large year-on-year swings in materiality, caused primarily by commodity price volatility, are minimised.

In our calculation of planning materiality, we also excluded from profit before tax the impact of fair value movements on the BKR contingent consideration and unrealised commodity price hedges. This was based on the fact that both of these financial statement items are impacted by significant changes in oil and gas prices, which could distort the underlying results of the performance of the business. These amounts represented net income statement gains of £17 million (2021: losses of £242 million) that have therefore been excluded from adjusted profit before tax. In our final assessment of materiality at year-end, we have also excluded the impact of the significant one-off charge relating to the North Eigg write down.

We determined materiality for the parent company to be £5.4 million (2021: £5.3 million), which is 2% (2021: 2%) of equity. We use equity as the basis for materiality as the purpose of the parent company is to hold investments in its subsidiaries. We do not expect significant annual profits to be generated by the company in future periods, as this will be dependent on the level and timing of any subsequent intra-group dividends paid by the group's operating companies.

During the course of our audit, we reassessed initial materiality and based on the final results for 2022, we concluded that no changes were required other than to reflect the impact of the North Eigg write off, which was not known at the planning stage of our audit.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £8.8m (2021: £4.3m). We have set performance materiality at this percentage due to the stability in the group post the material acquisition of BKR in 2018 and the low number of audit differences identified in the 2021 audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £7.4m (2021: £3.7m)

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.59m (2021: £0.28m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 57, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 58, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are international accounting standards in conformity with the requirements of Companies Act 2006, the Companies Act 2006, AIM listing rules and UK tax legislation.
- We understood how Serica Energy plc is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies, and noted there was no contradictory evidence.
- Following the year-end date, it was identified that certain dividend distributions paid in 2022 were not made in accordance with The Companies Act 2006, because the necessary interim financial statements required to demonstrate that sufficient distributable reserves were available prior to payment of those dividends had not been filed at Companies House. We understood how the company, along with their legal and corporate secretarial advisors, plans to remedy these breaches and ensured that related disclosures in the financial statements were appropriate.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand what areas were susceptible to fraud. We also considered performance targets and their propensity to influence management to manage earnings.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved incorporated data analytics across our audit approach, journal entry testing with a focus on manual consolidation journals and journals meeting our defined risk criteria based on our understanding of the business; enquiries of management, review of Board and Audit Committee reporting; and focused testing as referred to in the key audit matters section above.

We ensured our audit team has appropriate industry experience through working for many years on relevant audits, including experience of oil and gas companies. Our audit planning included considering external market factors, for example geopolitical risk, the potential impact of climate change, commodity price risk and major trends in the industry.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Mark Woodward (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
12 April 2023

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

		Group		Company	
		2022	2021	**2022**	2021
	Note	**£000**	£000	**£000**	£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**	**Other reserve**	**Accum'd funds/ (deficit)**	**Total**
		£000	**£000**	**£000**	**£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**	**Merger reserve**	**Other reserve**	**Accum'd funds (deficit)**	**Total**
	£000	**£000**	**£000**	**£000**	**£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

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.

Pre-licence Award Costs

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

Exploration and Evaluation (E&E)

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

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.

<u>Asset Purchases and Disposals</u>

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.

<u>Farm-ins</u>

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

<u>Capitalisation</u>

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.

<u>Depletion</u>

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.

<u>Impairment</u>

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').

<u>Equity-settled transactions</u>

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.

3. Segment Information

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

The following tables present revenue, profit and certain asset and liability information regarding the Group's one geographical reportable segment of the UK for the years ended 31 December 2022 and 2021. Costs associated with the UK corporate centre are included in the UK reportable segment.

	2022 £000	2021 £000
Revenue	812,423	514,136
Continuing operations		
Depletion	(76,887)	(37,048)
Other expenses	(176,577)	(231,008)
E&E asset write-offs	(82,749)	-
Operating and segment profit	476,210	246,080
Change in BKR financial liability	8,407	(110,529)
Finance revenue	4,499	82
Finance costs	(938)	(527)
Profit before taxation	488,178	135,106
Taxation charge for the year	(310,382)	(55,812)
Profit after taxation	177,796	79,294
	Total £000	Total £000
Other segment information:		
Property, plant & equipment	265,907	328,944
Exploration and evaluation assets	1,001	2,949
Other assets	595,474	354,778
Total assets	862,382	686,671
Segment liabilities	(453,658)	(414,143)
Total liabilities	(453,658)	(414,143)
Capital expenditure:		
Property, plant & equipment	16,298	50,252
Exploration and evaluation assets	80,801	1,906

In 2021 and 2022 all cash on deposit is allocated to the UK operating segment.

Information on major customers is provided in note 4.

4. Sales Revenue

	2022	2021
	£000	£000
Gas sales	652,680	455,969
Gas supply contract revenue	37,505	-
Total gas sales	690,185	455,969
Oil sales	88,048	40,215
NGL sales	34,190	17,952
Total revenue	812,423	514,136

Gas sales revenue in 2021 and 2022 arose from one key customer. Gas supply contract revenue in 2022 arose from the unwind of gas contract liabilities initially recognised upon the restructuring of certain gas swaps to other fixed price instruments under a gas sales contract in August 2021. Further information is provided note 19.

All oil sales revenue in 2021 and 2022 was from one key customer, and NGL sales in 2022 were made to six (2021: six) customers.

5. Cost of Sales

	2022	2021
	£000	£000
Operating costs	120,998	97,124
Depletion (see note 15)	76,887	37,048
Movement in liquids overlift/underlift	20,270	(6,859)
	218,155	127,313

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.

6. Group Operating Profit

	2022	2021
	£000	£000
This is stated after crediting/(charging):		
Realised hedging losses	(45,384)	(56,615)
Unrealised hedging gains/(losses) on gas swaps	20,877	(36,100)
Other hedging losses (note 19)	-	(38,492)
Unrealised hedging gains/(losses)	20,877	(74,592)

Realised hedging losses measured at fair value through profit or loss for 2021 and 2022 comprise losses realised on 2021 and 2022 gas price swaps respectively.

Unrealised hedging gains/(losses) measured at fair value through profit or loss on gas swaps comprise unrealised amounts on the movement during 2022 and 2021 respectively in the calculated fair value liability of outstanding gas price derivative contracts measured at the respective Balance Sheet dates.

Other hedging losses in 2021 comprise charges for the fair value of 2022 and 2023 hedging instruments crystalised as gas contract liabilities upon a restructuring of certain gas swaps to other fixed price instruments under a gas sales contract in August 2021. Further detail is provided in note 19.

7. Auditor's Remuneration

	2022 **£000**	2021 £000
Audit of the Group accounts	338	310
Audit of the Company's accounts	30	30
Audit of accounts of Company's subsidiaries	36	15
Total audit fees	404	355

No fees were paid to Ernst & Young LLP and its associates for non-audit services in 2021 or 2022.

8. Staff Costs and Directors' Emoluments

a) Staff Costs - Group

	2022	2021
	£000	£000
Wages and salaries	21,755	19,637
Social security costs	3,727	2,525
Other pension costs	2,199	2,104
Share-based long-term incentives	3,510	2,386
	31,191	26,652

Staff Costs - Company		
Wages and salaries	3,539	3,064
Social security costs	718	554
Other pension costs	156	126
	4,413	3,744

The average number of persons employed by the Group during the year was 175 (2021: 164), with 9 in management functions (2021: 9), 155 in technical functions (2021: 145) and 11 (2021: 10) in finance and administrative functions.

The average number of persons employed by the Company during the year was 12 (2021:11) with 7 in management functions (2021: 7), 1 in technical functions (2021:1) and 4 (2021: 3) in finance and administrative functions.

Staff costs for key management personnel:		
Short-term employee benefits	2,616	2,040
Post-employment benefits	111	82
Share-based payments	2,036	617
	4,763	2,739

b) Directors' Emoluments

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

	2022 Salary and fees £000	2022 Bonus £000	2022 Pension £000	202 Benefits in kind £000	**2022 Total £000**	2021 Total £000
A Craven Walker	490	-	-	-	490	592
M Flegg (1)	523	423	68	1	1,015	865
A Bell (1) and (2)	328	246	43	1	618	195
N Pike (3)	-	-	-	-	-	30
I Vann (4)	20	-	-	-	20	60
T Garlick	60	-	-	-	60	60
M Webb	60	-	-	-	60	60
K Coppinger	60	-	-	-	60	55
R Rose (5)	24	-	-	-	24	13
D Latin (6)	57	-	-	-	57	4
J Schmitt (7)	25	-	-	-	25	-
	1,647	669	111	2	2,429	1,934

Note (1) Cash in lieu of pension.
Note (2) Andrew Bell was appointed on 3 September 2021
Note (3) Neil Pike retired on 24 June 2021
Note (4) Ian Vann retired on 30 April 2022
Note (5) Richard Rose was appointed on 28 September 2021 and resigned on 21 June 2022
Note (6) David Latin was appointed on 7 December 2021
Note (7) Jerome Schmitt was appointed on 1 July 2022

	2022	2021
Number of Directors securing benefits under defined contribution schemes during the year	2	2
Number of Directors who exercised share options	-	-

	£000	£000
Aggregate gains made by Directors on the exercise of options	-	-

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

9. Finance Revenue

	2022 **£000**	2021 £000
Bank interest receivable	4,499	82
Total finance revenue	4,499	82

10. Finance Costs

	2022 **£000**	2021 £000
Other interest payable	385	71
Unwinding of discount on decommissioning provisions (note 23)	553	456
Total finance costs	938	527

11. Taxation

		2022 £000	2021 £000
a)	Tax charged/(credited) in the income statement		
	Charge for the year	276,674	15,804
	Adjustment in respect of prior years	1,021	-
	Total current income tax charge	277,695	15,804
	Deferred tax		
	Origination and reversal of temporary differences in the current year	32,687	41,060
	Adjustment in respect of prior years	-	(1,052)
	Total deferred tax charge	32,687	40,008
	Tax charge in the income statement	310,382	55,812

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

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

	2022 £000	2021 £000
Accounting profit before taxation	488,178	135,106
Statutory rate of corporation tax in the UK of 40% (2021: 40%)	195,271	54,042
(Income)/expenses not deductible/(chargeable) for tax	(2,237)	5,299
Movement in unrecognised deferred tax assets	(500)	717
Investment Allowance	(1,927)	(3,140)
EPL - deferred tax charge	59,045	-
EPL - Income taxed at different rates	82,473	-
EPL – Investment allowance	(18,136)	-
Income tax at different rates	378	7
Permanent differences	(5,006)	-
Other	-	(61)
Adjustment in respect of prior years	1,021	(1,052)
Tax charge reported in the income statement	310,382	55,812

c) Recognised and unrecognised tax losses

The Group's deferred tax assets at 31 December 2022 are recognised to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the UK can be utilised. In accordance with IAS 12 Income Taxes, the Group assessed the recoverability of its deferred tax assets at 31 December 2022 with respect to ring fence losses and allowances.

The Group has UK ring fence tax losses of £nil available as at 31 December 2022 (2021: £nil) which form part of total UK tax losses of approximately £25.4 million (2021: £28.0 million) that are available indefinitely for offset against future trading profits of the companies in which the losses arose. No amounts have been set off against taxable temporary differences in 2021 or 2022. The benefit of approximately £25.4 million (2021: £28.0 million) of tax losses has not been recognised in these consolidated statements which reflects the extent of the total available UK tax losses that have not either been recognised in the net deferred tax asset or set against a deferred tax liability arising.

d) Deferred tax

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

	2022	2021
	£000	£000
Deferred tax liability:		
Temporary differences on capital expenditure	(166,219)	(131,846)
Deferred tax liability	(166,219)	(131,846)
Deferred tax asset:		
Movement in tax losses carried forward	-	-
Other permanent differences	2,844	-
Decommissioning liability	10,080	11,238
Deferred tax asset	12,924	11,238
Net deferred tax liability	(153,295)	(120,608)

Reconciliation of net deferred tax (liabilities)/assets

	2022	2021
	£000	£000
At 1 January	(120,608)	(80,600)
Tax charge during the year recognised in profit	(32,687)	(40,008)
At 31 December	(153,295)	(120,608)

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

	2022 £000	2021 £000
Deferred tax in the income statement:		
Temporary differences on capital expenditure	34,373	7,065
Tax losses carried forward	-	20,427
Net Cash Flow Sharing Deed	-	14,635
Permanent differences	(2,844)	-
Other temporary differences	1,158	(2,119)
Deferred income tax charge	32,687	40,008

e) Unrecognised deferred tax liability

In 2022 and 2021 there are no material temporary differences associated with subsidiaries for which deferred tax liabilities have not been recognised.

f) Company

The Company has £25.4 million (2021: £28.0 million) of UK corporation tax losses which are not recognised as deferred tax assets.

g) *Changes to UK corporation tax legislation*

On 26 May 2022, the UK Government announced the introduction of an Energy Profits Levy ('EPL') on the UK ring fence profits of oil and gas producers with effect from 26 May 2022. The legislation introducing the EPL was substantively enacted on 11 July 2022. The EPL will increase to a rate of 35% from 25% with effect from 1 January 2023. The increase in rate was substantively enacted on 30 November 2022. The EPL will be in place until 31 March 2028.

The EPL is charged on taxable profits in addition to ring fence corporation tax of 30% and Supplementary Charge of 10%, making a total rate on ring fence profits of 65% for the period from 26 May 2022 to 31 December 2022, and 75% from 1 January 2023 to 31 March 2028. Any temporary differences subject to the EPL expected to reverse in this period have consequently been remeasured to the higher rate. This has resulted in a one-off deferred tax charge to the income statement of £59.0 million. The net impact on the deferred tax liability at the end of the period as a result of the EPL is an increase in the deferred tax liability of £59.0 million.

The Finance Bill 2021 contained legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. This rate was substantively enacted in May 2021. The Group does not currently recognise any deferred tax assets in respect of UK non-ring fence tax losses and therefore this rate change did not impact the disclosed results.

12. Earnings Per Share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of dilutive potential ordinary shares granted under share-based payment plans (see note 27) into ordinary shares.

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

	2022	2021
	£000	£000
Net profit from continuing operations	177,796	79,294
Net profit attributable to equity holders of the parent	177,796	79,294
	2022	2021
	'000	'000
Basic weighted average number of shares	271,678	268,262
Dilutive potential of ordinary shares granted under share-based payment plans	16,757	13,106
Diluted weighted average number of shares	288,435	281,368
	2022	2021
	£	£
Basic EPS on profit for the year (£)	0.65	0.30
Diluted EPS on profit for the year (£)	0.62	0.28

13. Dividends proposed

Proposed dividends on ordinary shares

A final cash dividend for 2022 of 14.0 pence per share (2021: 9.0 pence per share) is proposed which would generate a payment of £53.4 million (2021: £24.4 million). Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December.

Dividends on ordinary shares paid in 2022

A final cash dividend for 2021 of 9.0 pence per share was proposed in April 2022 and approved at the annual general meeting on 24 June 2022. Following the approval in the 1H 2022 period, the dividend payable of £24.4 million was paid in July 2022.

An interim cash dividend for 2022 of 8.0 pence per share was announced in September 2022 and £21.9 million was paid in November 2022.

Following the year end, the Directors became aware that certain dividends paid in 2022 had been made otherwise than in accordance with the Companies Act 2006, section 838, because interim accounts had not been filed at Companies House prior to payment. It is important to note that the Company has had sufficient distributable profits at the time each relevant dividend was paid and therefore did not pay out by way of dividends more income than it had, and no payments were made out of capital. Relevant dividends were the final dividend paid in July and the interim dividend paid in November. A resolution will be proposed at the Annual General Meeting to be held on 29 June 2023 to remove any right that the Company may have had to claim from shareholders or Directors or former Directors for repayment of these amounts by entering into deeds of release in relation to any such claims. This will, if passed, constitute a related party transaction under IAS 24. The overall effect of the resolution is to return the parties so far as possible to the position they would have been in had the relevant dividends been made in full compliance with the Act. The amounts for dividends included within the financial statements have not been restated as the financial resources had left the Company and the intention of the resolution to be passed will be to remove any right for the Company to pursue shareholders or directors for repayments.

14. Exploration and Evaluation Assets

Group	**Total £000**
Cost:	
1 January 2021	1,043
Additions	1,906
Write-offs	-
31 December 2021	2,949
Additions	80,801
Write-offs	(82,749)
31 December 2022	1,001
Provision for impairment:	
1 January 2021	-
Impairment reversal for the year	-
31 December 2021	-
Impairment reversal for the year	-
31 December 2022	-
Net book amount:	
31 December 2022	1,001
31 December 2021	2,949
1 January 2021	1,043

The E&E asset write-off for 2022 of £82.7 million 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.

Company

The Company has no E&E assets.

15. Property, Plant and Equipment

Group	Oil and gas properties £000	Equipment, fixtures and fittings £000	Right-of-use assets £000	Total £000
Cost:				
1 January 2021	411,462	212	516	412,190
Additions	50,252	-	-	50,252
Decommissioning asset	4,840	-	-	4,840
31 December 2021	466,554	212	516	467,282
Additions	15,953	-	345	16,298
Revisions (note 23)	(2,231)	-	-	(2,231)
31 December 2022	480,276	212	861	481,349
Depreciation and depletion:				
1 January 2021	100,650	114	301	101,065
Charge for the year (note 5)	37,048	53	172	37,273
31 December 2021	137,698	167	473	138,338
Charge for the year (note 5)	76,887	45	172	77,104
31 December 2022	214,585	212	645	215,442
Net book amount:				
31 December 2022	265,691	-	216	265,907
31 December 2021	328,856	45	43	328,944
1 January 2021	310,812	98	215	311,125

Depletion
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 then assessed and no impairment was recorded.

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

Company
The Company has right-of-use assets with a net book amount of £0.2 million as at 31 December 2022 (2021: £0.04 million).

16. Investments

Company – Investment in subsidiaries	**Total £000**
Cost:	
As at 1 January 2021, 31 December 2021 and 31 December 2022	105,256
Provision for impairment:	
As at 1 January 2021, 31 December 2021 and 31 December 2022	-
Net book amount:	
1 January 2021, 31 December 2021 and 31 December 2022	105,256

In the Company financial statements, the cost of the investment acquired on an historic reorganisation in 2005 was calculated with reference to the market value of Serica Energy Corporation as at the date of the reorganisation. As a UK company, under Section 612 of the Companies Act 2006, the Company is entitled to merger relief on its share reorganisation with Serica Energy Corporation, and the excess of £88,088,000 over the nominal value of shares issued (US$7,475,000) was credited to a merger reserve. The merger reserve is adjusted for any write-down in the value of the investment in subsidiary.

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

Name of company:	Holding	Nature of business	**% voting rights and shares held**	% voting rights and shares held
			2022	2021
Serica Holdings UK Ltd (ii)	Ordinary	Holding	100	100
Serica Energy Holdings BV (i & iii)	Ordinary	Holding	100	100
Serica Energy (UK) Ltd (i & ii)	Ordinary	E&P	100	100
Serica Energy Slyne BV (i & iii)*	Ordinary	Dormant	100	100
Serica Energy Rockall BV (i & iii)*	Ordinary	Dormant	100	100
Serica Energy Namibia BV (i & iii)*	Ordinary	Dormant	100	100
Serica Sidi Moussa BV (i & iii)*	Ordinary	Dormant	100	100
Serica Glagah Kambuna BV (i & iii)	Ordinary	Dormant	100	100
Serica Energy Corporation (i & ii)	Ordinary	Dormant	100	100
APD Ltd (i & ii)	Ordinary	Dormant	100	100
PDA Asia Ltd (i & ii)	Ordinary	Dormant	100	100
PDA (Lematang) Ltd (i)	Ordinary	Dormant	100	100
Serica UK Exploration Ltd (i & ii))	Ordinary	Dormant	100	100

(i) Held by a subsidiary undertaking
(ii) Incorporated in the UK
(iii) Incorporated in the British Virgin Islands
(iv) Incorporated in the Netherlands

*company liquidated in December 2022 and removed from trade register in the Netherlands in February 2023.

The registered office of the Company's subsidiaries incorporated in the UK is 48 George Street, London, W1U 7DY.

The registered office of the Company's subsidiaries incorporated in the Netherlands is Hoogoorddreef 15, 1101 BA Amsterdam, The Netherlands.

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

17. Inventories

	Group 2022 £000	2021 £000	Company 2022 £000	2021 £000
Materials and spare parts	3,998	4,053	-	-
	3,998	4,053	-	-

Inventories are valued at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs and transportation expenses. Inventories are recorded net of an obsolescence provision of £3.1 million (2021: £2.7 million).

18. Trade and Other receivables

	Group 2022 £000	2021 £000	Company 2022 £000	2021 £000
Due within one year:				
Amounts owed by Group undertakings	-	-	24,998	161,759
Trade receivables	100,445	121,373	-	-
Amounts recoverable from JV partners	2,567	1,466	-	-
Other receivables	9,192	426	222	131
Prepayments and accrued income	18,306	1,180	-	-
VAT recoverable	4,117	1,611	225	120
Liquids underlift	-	6,295	-	-
	134,627	132,351	25,445	162,010

Trade receivables at 31 December 2022 arose from six (2021: five) customers. They are non-interest bearing and are generally on 15 to 30-day terms.

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

At the reporting date the amounts owed by Group undertakings to the Company are disclosed net of an impairment of £13,231,000 (2021: £13,231,000). These amounts have not been secured, have no maturity and bear no interest.

The Company holds inter-company loans with subsidiary undertakings 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.

19. Derivative financial (liabilities)/assets

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Financial liabilities				
Derivative financial instruments	(24,914)	(45,791)	-	-
	(24,914)	(45,791)	-	-

Fair value hierarchy
All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows: Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities; Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly (i.e. as prices) or indirectly (i.e. derived from prices) observable; Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. The valuation methodology for derivative financial instruments is detailed below and for contingent consideration is disclosed in note 22. A table summarising the Group's liabilities measured at fair value is included in note 24.

Derivative financial instruments
The Group enters into derivative financial instruments with various counterparties. No gas put options were held at 31 December 2021 or 31 December 2022. Other derivative financial instruments held at 31 December 2021 and 2022 comprised gas swaps which were valued by counterparties, with the valuations reviewed internally and corroborated with readily available market data of forward gas pricing (level 2). Details of the Group's derivative financial instruments held as at 31 December 2022 are provided in note 24.

Hedging security advances
Hedging security advances of £24.3 million at 31 December 2022 (2021: £115.4 million) represented cash security lodged with commodity hedging counterparties which reflected the gas prices at the end of 2022. This will be returned to Serica should forward gas prices fall or when monthly contracts are settled.

Gas contract liabilities

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Gas contract liabilities (<1 year)	(987)	(37,505)	-	-
Gas contract liabilities (>1 year)	-	(987)	-	-
	(987)	(38,492)	-	-

In August 2021, Serica restructured certain existing hedging arrangements with one of its hedging counterparties covering swap agreements for the 2022 and 2023 periods through moving these from fixed price swaps to fixed-price forward sales of gas. The new fixed-price instruments ("gas contract liabilities") were on the same terms (volumes, prices and delivery dates) as the existing swap arrangements that they superseded. The new arrangements have changed from net settled gas swaps to a physically settled gas supply contract. This change is substantive and is therefore considered from an accounting perspective as a cancellation of the financial swaps and the formation of a new agreement including physical forward sales. Consequently, the new arrangements are no longer accounted for at fair value in accordance with IFRS 9 but rather assigned a contract value at inception and accounted for in accordance with IFRS 15 "Revenue from Contracts with Customers".

The new arrangements do not represent financial instruments within the scope of IFRS 9 as they were entered into and continue to be held for the purpose of the delivery of a non-financial item in accordance with the company's sale or usage requirements and instead are accounted for under IFRS 15. The gas contract liability value is calculated as the fair value at the point of inception in August 2021 but not then re-measured at the period end.

Consequently, an unrealised hedging loss of £38.5 million, representing the crystallised fair value of the swaps cancelled in August 2021, has been expensed in the income statement (see note 6) with an equivalent gas contract liability created and then retained in the balance sheet as at 31 December 2021. This liability is released to the income statement and recorded as revenue during 2022 (£37.5 million) and 2023 (£1.0 million) when the relevant volumes are delivered at fixed prices rather than spot rate prices in these periods.

Details of the fixed price instruments that together with gas swaps, comprise the Group's hedging instruments in place at 31 December 2022, are provided in note 24.

20. Cash and Term Deposits

	Group		**Company**	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Cash at bank and in hand	146,986	102,363	49,261	208
Short-term deposits	285,543	621	91,957	370
Cash and cash equivalents	432,529	102,984	141,218	578

As at 31 December 2022, the cash balance of £432.5 million (2021: £103.0 million) contained an amount of £18.1 million held in a restricted account as security against letters of credit issued in respect of certain decommissioning liabilities (2021: £22.9 million comprising £12.9 million in respect of decommissioning liabilities and £10.0 million to cover margining arrangements).

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods with original maturities of between one day and three months at the date acquired. They are considered to be readily convertible into cash and subject to an insignificant risk of changes in value. The placing of deposits depends on the immediate cash requirements of the Group and they earn interest at the respective short to medium term deposit rates.

The Group's exposure to credit risk arises from potential default of a counterparty, with a maximum exposure equal to the carrying amount. The Group seeks to minimise counterparty credit risks by only depositing cash surpluses with major banks of high quality credit standing and spreading the placement of funds over a range of institutions.

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

	S&P/Moody's credit rating	**Group** **2022** **£000**	2021 £000	**Company** **2022** **£000**	2021 £000
Barclays Bank plc	A-1	104,586	16,650	104,150	380
Lloyds Bank plc	A-1	184,548	76,166	2,068	198
DNB Bank ASA	P-1	103,272	-	35,000	-
Investec Bank plc	P-1	40,071	10,124	-	-

21. Trade and Other Payables

	Group **2022** **£000**	2021 £000	**Company** **2022** **£000**	2021 £000
Current:				
Trade payables	15,832	2,262	603	100
Other payables	7,972	16,977	521	153
Accrued expenses	32,108	14,458	2,243	770
Liquids overlift	13,975	-	-	-
	69,887	33,697	3,367	1,023

Trade payables are non-interest bearing and are generally on 15 to 30 day terms.

Accrued expenses include accruals for operating and capital expenditure in relation the oil and gas assets. The Directors consider the carrying amount of trade and other payables approximates to their fair value.

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

22. Financial liabilities

	Group **2022** **£000**	2021 £000	Company **2022** **£000**	2021 £000
BKR contingent consideration	29,378	131,656	-	-
	29,378	131,656	-	-
Split:				
Current	-	93,861	-	-
Non-current	29,378	37,795	-	-
	29,378	131,656	-	-

BKR consideration
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.
- 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.

Fair value measurement of BKR contingent consideration

The fair value of the contingent consideration is estimated as at applicable reporting dates from a valuation technique using future expected discounted cash flows. This methodology uses several significant unobservable inputs which are categorised within Level 3 of the fair value hierarchy.

The calculations are complex and involve a range of projections and assumptions related to future operating and development costs, production volumes, oil and gas sales prices, discount rates, estimates of future decommissioning expenditure and taxation.

Other contingent consideration payable has assumed repayment across the other operational timelines that trigger payment of consideration. Estimated contingent consideration payments have been calculated at a discount rate of 10% (2021: 10%).

Given the multiple input variables and judgements used in the calculations, and the inter relationships between changes in these variables, an estimate of a reasonable range of possible outcomes of undiscounted value of the contingent consideration has not been considered feasible. In isolation, the calculations are most sensitive to assumed oil and gas reserves and production profiles and future natural gas prices. Changes in most of the key assumptions noted above would also impact the fair value of assets/liabilities in addition to the contingent consideration.

In calculating the fair value of contingent consideration on the BKR acquisitions payable as at 31 December 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.

A sensitivity analysis to the discount rate used shows a decrease in the discount rate used from 10% to 9% would result in an increase in the fair value of the contingent consideration by £4.1 million, and an increase from 10% to 11% would result in a decrease in the fair value of the contingent consideration by £3.6 million.

2022 payments and income statement credit of £8.4 million arising on revaluation of BKR consideration measured at fair value through profit or loss

Short and long-term financial liabilities representing estimated BKR consideration as at 31 December 2021 totalled £131.7 million. During 2022, £93.9 million of BKR contingent consideration was paid comprising £30.5 million of Rhum contingent consideration (paid to BP) and £63.4 million of Net Cash Flow Sharing Deed payments (paid to BP, Total E&P and BHP).

As noted above, the fair value of this financial liability was re-assessed for the 2022 financial period end, with the final estimate of short and long-term liabilities as at 31 December 2022 amounting to £29.4 million (2021: £131.7 million). The overall liability decrease of £102.3 million in 2022 comprised cash payments of £93.9 million and a non-cash revision of £8.4 million recorded as a gain in the Income Statement.

Reconciliation of movement in BKR consideration

	Total £000
At 31 December 2021	131,656
Payments made in year	(93,871)
Revisions during the year	937
Effect of discount*	(9,344)
Change in fair value liability	(8,407)
At 31 December 2022	29,378
Classified as:	
Current	-
Non-current	29,378
	29,378

*the effect of discounting includes the impact of the unwinding of discount in the year and the increased impact of discounting on the revised assumptions for payment of the consideration in later periods.

23. Provisions

	Erskine consideration £000	Decommissioning provision £000	Total £000
At 1 January 2021	1,002	22,799	23,801
Additions	-	4,840	4,840
Unwinding of discount (note 10)	-	456	456
Payments	(1,002)	-	(1,002)
At 31 December 2021	-	28,095	28,095
Additions	-	-	-
Revisions during the year (note 15)	-	(2,231)	(2,231)
Unwinding of discount (note 10)	-	553	553
Payments	-	(1,218)	(1,218)
At 31 December 2022	-	25,199	25,199
Classified as:			
Current	-	-	-
Non-current	-	25,199	25,199
	-	25,199	25,199

Decommissioning provision

Bruce, Keith and Rhum fields

The Group makes full provision for the future costs of decommissioning its production facilities and pipelines on a discounted basis. With respect to the Bruce, Keith and Rhum fields, the decommissioning provision is based on the Group's contractual obligations of 3.75%, 8.33334% and 0% respectively of the decommissioning liabilities rather than the Group's equity interests acquired. The Group's provision represents the present value of decommissioning costs which are expected to be incurred prior to 2040 and assumes no further development of the Group's assets. The liability is discounted at a rate of 3.25% (2021: 2%) and the unwinding of the discount is classified as a finance cost (see note 10). The main factor behind the downward revisions to the decommissioning provision during 2023 were the extension of the assumed CoP of the BKR producing fields back to 2036 and its increased impact on the discounting.

Columbus field

The Group makes full provision for the decommissioning liabilities for the Columbus field on its 50% equity interest. The Group's provision represents the present value of decommissioning costs which are expected to be incurred up to 2030 and assumes no further development of the Group's assets. The liability is discounted at a rate of 3.25% (2021: 2%) and the unwinding of the discount is classified as a finance cost (see note 10).

Erskine field

No provision for decommissioning liabilities for the Erskine field is recorded as at 31 December 2021 or 2022 as the Group's current estimate for such costs is under the agreed capped level to be funded by BP. This has been fixed at a gross £174.0 million (£31.32 million net to Serica) with this figure adjusted for inflation.

Other

The estimation of costs, inflation and discount rates are considered to be judgemental although changes in single variables are not individually considered to have a significant impact. If the cost estimates were increased by 10% and the spread between inflation and discount rate reduced to 0%, the value of the provisions could increase by c.£4.2 million.

The Group considers the impact of climate change and Net Zero targets, including action that may impose further requirements and costs on companies in the future, on decommissioning provisions, specifically the timing of future cash flows, and has concluded that it does not currently represent a key source of estimation uncertainty. 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 limited impact compared to assets with longer durations.

Erskine consideration payments

Under the terms of the Erskine acquisition, certain contingent payments were due to be made by Serica related to savings in field operating costs. The payment for these amounts was capitalised as an oil and gas asset cost and a final settlement of £1.0 million was made in 2021.

Company

The Company has no provisions.

24. Financial Instruments

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

Serica has exposure to interest rate fluctuations on its cash deposits and given the level of expenditure plans over 2023/24 this is managed in the short-term through selecting treasury deposit periods of one to three months. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise concentration and counterparty risk.

Serica sells oil, gas and related products only to recognised international oil and gas companies and has no previous history of default or non-payment of trade receivables. Where Serica operates joint ventures on behalf of partners it seeks to recover the appropriate share of costs from these third parties. The majority of partners in these ventures are well established oil and gas companies. In the event of non-payment, operating agreements typically provide recourse through increased venture shares.

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

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

Interest Rate Risk Profile of Financial Assets and Liabilities

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

Group

Year ended 31 December 2022

	Within 1 year	**1-2 years**	**2-5 years**	**Total**
Fixed rate	**£000**	**£000**	**£000**	**£000**
Short-term deposits	285,543	-	-	285,543
				285,543

	Within 1 year	**1-2 years**	**2-5 years**	**Total**
Floating rate	**£000**	**£000**	**£000**	**£000**
Cash	146,986	-	-	146,986
				146,986

Year ended 31 December 2021

	Within 1 year	**1-2 years**	**2-5 years**	**Total**
Fixed rate	**£000**	**£000**	**£000**	**£000**
Short-term deposits	621	-	-	621
				621

Floating rate	Within 1 year £000	1-2 years £000	2-5 years £000	Total £000
Cash	102,363	-	-	102,363
				102,363

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

Increase/decrease in interest rate	**Effect on profit before tax 2022 £000**	Effect on profit before tax 2021 £000
+0.75%	1,618	611
-0.75%	(1,618)	(611)

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

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

Company

Year ended 31 December 2022

Fixed rate	**Within 1 year £000**	**1-2 years £000**	**2-5 years £000**	**Total £000**
Short-term deposits	91,957	-	-	91,957
				91,957

Floating rate	**Within 1 year £000**	**1-2 years £000**	**2-5 years £000**	**Total £000**
Cash	49,261	-	-	49,261

Year ended 31 December 2021

Fixed rate	**Within 1 year £000**	**1-2 years £000**	**2-5 years £000**	**Total £000**
Short-term deposits	370	-	-	370
				370

Floating rate	**Within 1 year £000**	**1-2 years £000**	**2-5 years £000**	**Total £000**
Cash	208	-	-	208

Credit risk

The Group's and Company's exposure to credit risk relating to financial assets arises from the default of a counterparty with a maximum exposure equal to the carrying value as at the balance sheet date. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.

In addition, there are credit risks of commercial counterparties including exposures in respect of outstanding receivables. The Group's oil and gas sales are all contracted with well-established oil and gas or energy companies. Also, where Serica operates joint ventures on behalf of partners it seeks to recover the appropriate share of costs from the third-party counterparties. The majority of partners in these ventures are well established oil and gas companies. In the event of non-payment, operating agreements typically provide recourse through increased venture shares. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Foreign currency risk

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

	Group		**Company**	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Cash and cash equivalents:				
US Dollar	44,535	11,947	25,369	379
Norwegian kroner	6	5	-	-
Euros	106	81	-	-
Accounts receivable:				
US Dollar	8,410	5,079	61	21
Trade and other payables:				
US Dollar	6,829	1,470	279	49

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

Increase/decrease in foreign exchange rate	**Effect on profit before tax 2022 £000**	Effect on profit before tax 2021 £000
10% strengthening of £ against US$	(4,612)	(1,556)
10% weakening of £ against US$	4,612	1,556

Liquidity risk

The table below summarises the maturity profile of the Group and Company's financial liabilities at 31 December 2022 based on contractual undiscounted payments. The Group monitors its risk to a potential shortage of funds by monitoring the maturity dates of existing debt.

Group **Year ended 31 December 2022**	**Within 1 year £000**	**1 to 2 years £000**	**2 to 5 years £000**	**>5 years £000**	**Total £000**
Trade and other payables	69,887	-	-	-	69,887
Derivative financial liabilities	24,914	-	-	-	24,914

Year ended 31 December 2021	**Within 1 year £000**	**1 to 2 years £000**	**2 to 5 years £000**	**>5 years £000**	**Total £000**
Trade and other payables	33,697	-	-	-	33,697
Derivative financial liabilities	29,421	16,370	-	-	45,791

Amounts payable as BKR contingent consideration are explained in detail in note 22. The bulk of contingent consideration due under the BKR acquisition agreements is related to future successful field performance and either paid out as a proportion of cash inflows or dependent on successful performance, with liquidity risk impacted downwards accordingly.

Company **Year ended 31 December 2022**	**Within 1 year £000**	**1 to 2 years £000**	**2 to 5 years £000**	**Total £000**
Trade and other payables	3,367	-	-	3,367

Year ended 31 December 2021	**Within 1 Year £000**	**1 to 2 years £000**	**2 to 5 years £000**	**Total £000**
Trade and other payables	1,023	-	-	1,023

Commodity price risk

The Group is exposed to commodity price risk. Where and when appropriate the Group will put in place suitable hedging arrangements to mitigate the risk of a fall in commodity prices. All gas production is sold at prices linked to the spot market. The significant majority of oil and NGL production was sold at prices linked to the spot market.

At 31 December 2022 Serica held gas price swaps and equivalent fixed price mechanisms covering 150,000 therms per day for H1 2023 and 50,000 therms per day for Q3 2023 at average prices of 49 pence per therm and 41 pence per therm respectively.

Fair values of financial assets and liabilities

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

The table below details the Group's fair value measurement hierarchy for liabilities as at 31 December:

		Fair value measurement using		
		Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
		Level 1	**Level 2**	**Level 3**
Liabilities measured at fair value	Note	**£'000**	**£'000**	**£'000**
Year ended 31 December 2022				
Derivative financial liabilities – gas swaps	19	-	24,914	-
Contingent consideration liability	22	-	-	29,378
Year ended 31 December 2021				
Derivative financial liabilities – gas swaps	19	-	45,791	-
Contingent consideration liability	22	-	-	131,656

There were no transfers between Level 1 and Level 2 during 2021 or 2022.

Capital management

The primary objective of the Group's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration, production and development expenditure, and to safeguard the entity's ability to continue as a going concern and create shareholder value. At 31 December 2022, capital employed of the Group amounted to £408.7 million (comprised of £408.7 million of equity shareholders' funds and £nil of borrowings), compared to £272.5 million at 31 December 2021 (comprised of £272.5 million of equity shareholders' funds and £nil of borrowings).

The acquisition of the Tailwind Energy Investments Ltd on 23 March 2023 to further the Group's business objectives, has brought some debt into the capital structure of the Group. This consists of the borrowings disclosed in note 31. The Board regularly reassesses the appropriate dividend payments proposed within the capital structure of the Group. Any future payment of dividends is expected to depend on the earnings and financial condition of the Company and such other factors as the Board considers appropriate.

At 31 December 2022, capital employed of the Company amounted to £268.8 (comprised of £268.8 million of equity shareholders' funds and £nil of borrowings), compared to £266.9 million at 31 December 2021 (comprised of £266.9 million of equity shareholders' funds and £nil of borrowings).

25. Equity Share Capital

As at 31 December 2022, the share capital of the Company comprised one "A" share of GB£50,000 and 272,953,371 ordinary shares of US$0.10 each. The "A" share has no special rights.

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

Allotted, issued and fully paid: **Group**	Number	Share capital £000	Share premium £000	Total Share capital £000
As at 1 January 2021	267,809,703	21,107	160,499	181,606
Shares issued	1,081,341	79	308	387
As at 1 January 2022	268,891,044	21,186	160,807	181,993
Shares issued	4,062,328	328	856	1,184
As at 31 December 2022	272,953,372	21,514	161,663	183,177

Allotted, issued and fully paid: **Company**	Number	Share capital £000	Share premium £000	Total Share capital £000
As at 1 January 2021	267,809,703	21,107	132,800	153,907
Shares issued	1,081,341	79	308	387
As at 1 January 2022	268,891,044	21,186	133,108	154,294
Shares issued	4,062,328	328	856	1,184
As at 31 December 2022	272,953,372	21,514	133,964	155,478

4,062,328 ordinary shares were issued in 2022 under the Company's Share Incentive Plans. 108,199,080 ordinary shares have been issued in 2023 to date and as at 11 April 2023 the issued voting share capital of the Company was 381,152,451 ordinary shares and one "A" share.

26. Additional Cash Flow Information

Analysis of Group net cash
Year ended 31 December 2022

	1 January 2022 £000	Cash flow £000	Non-cash movements £000	31 December 2022 £000
Cash	102,363	44,423	200	146,986
Short-term deposits	621	283,619	1,303	285,543
	102,984	328,042	1,503	432,529

Year ended 31 December 2021

	1 January 2021 £000	Cash flow £000	Non-cash movements £000	31 December 2021 £000
Cash	36,010	66,639	(286)	102,363
Short-term deposits	53,323	(52,639)	(63)	621
	89,333	14,000	(349)	102,984

Analysis of Company net cash
Year ended 31 December 2022

	1 January 2021 £000	Cash flow £000	Non-cash movements £000	31 December 2022 £000
Cash	208	49,093	(40)	49,261
Short-term deposits	370	91,687	(100)	91,957
	578	140,780	(140)	141,218

Year ended 31 December 2021

	1 January 2020 £000	Cash flow £000	Non-cash movements £000	31 December 2021 £000
Cash	1,217	(990)	(19)	208
Short-term deposits	5,861	(5,430)	(61)	370
	7,078	(6,420)	(80)	578

27. Share-Based Payments

Share Option Plans

The Company operates three discretionary incentive share option plans: the Serica Energy Plc Long Term Incentive Plan (the "LTIP"), which was adopted by the Board on 20 November 2017 which permits the grant of share-based awards, the 2017 Serica Energy plc Company Share Option Plan ("2017 CSOP"), which was adopted by the Board on 20 November 2017, and the Serica 2005 Option Plan, which was adopted by the Board on 14 November 2005. Awards can no longer be made under the Serica 2005 Option Plan. However, options remain outstanding under the Serica 2005 Option Plan. The LTIP and the 2017 CSOP together are known as the "Discretionary Plans".

The Discretionary Plans will govern all future grants of options by the Company to Directors, officers, key employees and certain consultants of the Group. The Directors intend that the maximum number of ordinary shares which may be utilised pursuant to the Discretionary Plans will not exceed 10% of the issued ordinary shares of the Company from time to time in line with the recommendations of the Association of British Insurers.

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

Serica 2005 Option Plan
As at 31 December 2022, 3,900,000 options granted by the Company under the Serica 2005 Option Plan were outstanding. All options awarded under the Serica 2005 Option Plan since November 2009 have a three-year vesting period. When awarding options to Directors, the Remuneration Committee are required to set Performance Conditions in addition to the vesting provisions before vesting can take place. Of the above options, 2,500,000 of these options were granted to Mr Craven Walker in July 2015 at exercise prices higher than the market price at the time of the grant to establish firm performance targets.

No options were granted in 2021 or 2022 under the Serica 2005 Option Plan.

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

Serica 2005 option plan	**2022 Number**	**2022 WAEP**	2021 Number	2021 WAEP
		£		**£**
Outstanding as at 1 January	4,100,000	0.14	4,578,050	0.15
Exercised during the year	(200,000)	0.27	(478,050)	0.22
Expired during the year	-	-	-	-
Outstanding as at 31 December	3,900,000	0.14	4,100,000	0.14
Exercisable as at 31 December	3,900,000	0.14	4,100,000	0.14

The weighted average remaining contractual life of options outstanding as at 31 December 2022 is 2.4 years (2021: 3.3 years). The weighted average share price for the options exercised in 2022 was £3.28 (2021: £2.23).

For the Serica 2005 option plan, the exercise price for outstanding options at the 2022 year-end ranges from £0.07 to £0.24 (2021: £0.07 to £0.27).

As at 31 December 2022, the following director and employee share options were outstanding:

Expiry Date	Amount	Exercise cost GB£
January 2024	300,000	39,000
June 2025	1,100,000	72,600
July 2025	1,000,000	120,000
July 2025	1,000,000	180,000
July 2025	500,000	120,000
Total	3,900,000	

Long Term Incentive Plan
The following awards granted to certain Directors and employees under the LTIP are outstanding as at 31 December 2022.

Deferred Bonus Share Awards
Deferred Bonus Share Awards involve the deferral of bonuses into awards over shares in the Company. They are structured as nil-cost options and may be exercised up until the fifth anniversary of the date of grant. Vesting of the Deferred Bonus Share Awards was the later of the date of completion of the BKR Acquisition and 31 January 2019 and all awards have therefore now vested. They were not subject to performance conditions; however, they were conditional on completion of the BKR Acquisition, subject to the Board determining otherwise.

	2022 Number	2021 Number
Outstanding as at 1 January	726,000	864,000
Exercised during the year	-	(138,000)
Expired during the year	-	-
Outstanding as at 31 December	726,000	726,000
Exercisable as at 31 December	726,000	726,000

The weighted average remaining contractual life of options outstanding as at 31 December 2022 is 0.4 years (2021: 1.4 years).

Performance Share Awards
Performance Share Awards have a three-year vesting period and are subject to performance conditions based on average share price growth targets to be measured by reference to dealing days in the period of 90 days ending immediately prior to expiry of a three-year performance starting on the date of grant of a Performance Share Award. Performance Share Awards are structured as nil-cost options and may be exercised up until the tenth anniversary of the date of grant.

Performance and Retention Share Awards

	2022 Number	2021 Number
Outstanding as at 1 January	14,448,764	11,762,847
Granted during the year	665,632	2,725,032
Exercised during the year	(1,787,829)	(39,115)
Outstanding as at 31 December	13,326,567	14,448,764
Exercisable as at 31 December	7,264,623	5,484,747

The weighted average remaining contractual life of options outstanding as at 31 December 2022 is 7.0 years (2021: 7.9 years). The weighted average share price during 2022 across the period that options were exercised in was £3.23 (2021: £1.57).

LTIP awards in 2021

In May 2021, the Company granted nil-cost Performance Share Awards over 2,725,032 ordinary shares under the LTIP. All of the total awards were outstanding at 31 December 2022. The award was made to members of the Group's executive team, senior management and employees.

These awards are subject to vesting criteria based on absolute share price performance over a three-year period (75%) and on reductions in carbon intensity of production from the BKR assets (25%) and are not exercisable at 31 December 2021.

LTIP awards in 2022

In May 2022, the Company granted nil-cost Performance Share Awards over 665,632 ordinary shares under the LTIP. All of the total awards were outstanding at 31 December 2022. The award was made to members of the Group's executive team, senior management and employees.

The vesting criteria are based on absolute share price performance over a three-year period and specific performance targets related to carbon emissions from operations over the same period. For the awards to vest in full, a 100% increase in average share price must be maintained for at least a six-month period together with a significant decrease in carbon emissions per barrel of oil equivalent produced. These awards are not exercisable at 31 December 2022.

Share-based compensation
The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those options subject to certain market conditions) to estimate the fair value of share options at the date of grant. There are no cash settlement alternatives. The options granted in 2021 and 2022 were consistently valued in line with the Company's valuation policy. For the options subject to market conditions, assumptions made included a weighted average risk-free interest rate of 2%, a weighted average expected life of 5 years, and a volatility factor of expected market price of in a range from 55-70%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The weighted fair value of options granted during the year was £1.95 (2021: £0.71). The estimated fair value of options is amortised to expense over the options' vesting period.

£3,510,000 has been charged to the income statement for the year ended 31 December 2022 (2021: £2,386,000) and a similar amount credited to the share-based payments reserve, classified as 'Other reserve' in the Balance Sheet. The 'Other reserve' was comprised solely of the share-based payment reserve which totaled £25,576,000 as at 31 December 2022 (2021: £22,066,000). A charge of £2,036,000 (2021: £617,000) of the total charge was in respect of key management personnel (defined in note 8).

28. Leases

In March 2019 the Group entered into a three-year lease at its new registered office, 48 George Street, following the expiry of its previous London office lease at 52 George Street. The Group confirmed a two-year option extension in March 2022 and the office lease now expires in March 2024. Incremental right-of-use assets and lease liabilities of £345,000 were recognised by the Group during 2022 within property, plant and equipment and other liabilities respectively. A depreciation charge of £172,000 (2021: £172,000) was expensed within administrative expenses. £132,000 (2021: £179,000) of cash payments made against the lease liability during 2022 are reflected in the 2022 Group cash flow statement as a cash outflow in financing activities. The remaining lease liability of £213,000 falls due within one year.

29. Capital Commitments and Contingencies

At 31 December 2022, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation assets and oil and gas properties, other than the commitments set out below, amounted to £4 million for the Group and £nil for the Company (2021: £nil and £nil respectively).

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

BKR commitments

There are no significant existing capital commitments on the BKR producing fields outstanding at 31 December 2022, however on the Bruce fields plans are in hand to conduct well work at an estimated cost of £21 million in 2023 designed to enhance current production profiles and extend field life. Net revenues from Serica's share of income from the fields, are expected to cover Serica's retained share of ongoing field expenditures and deferred or contingent consideration due under the respective acquisition agreements. Further deferred contingent consideration amounts will fall due to each of BP, Total E&P and BHP representing 30% of their retained share of the actual costs of decommissioning the BKR field facilities in existence at completion net of tax relief.

Serica has posted cash collateral of approximately £18.1 million under BKR decommissioning security arrangements, related to the interests acquired from Marubeni in support to the issue of letters of credit required. This secured amount is within the Group's cash balances of £432.5 million as at 31 December 2022. The funds are freely transferable but alternative collateral would need to be put in place to replace the cash security.

Other commitments

The Group's only significant exploration commitment is the drilling of a commitment well on Licence P2400 (Skerryvore) to be drilled before October 2025. Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK.

Other
The Group occasionally has to provide security for a proportion of its future obligations to defined work programmes or other commitments.

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

30. Related Party Transactions and Transactions with Directors

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

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

31. Acquisition of Tailwind Energy Investments Ltd

On 23 March 2023, the Company acquired Tailwind Energy Investments Ltd for initial purchase consideration of £297.4 million. This comprised cash of £61.6 million and the fair value of 108,170,426 ordinary shares in Serica Energy plc issued in exchange for all Tailwind shares. The fair value of the shares issued was calculated using the market price of the Company's shares of £2.18 on the AIM Market of the London Stock Exchange at its opening of business on 23 March 2023.

A further 2,877,698 ordinary shares have not yet been issued to the sellers but would form part of the maximum number of 111,048,124 ordinary shares that can be issued as part of the purchase consideration. These will only be issued to the extent there are no successful warranty claims and would be in addition to the initial purchase consideration noted above.

Tailwind's activities comprise development and production oil & gas assets in the UK North Sea. 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. 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 and 2C reserves and a balance of gas and oil production.

The fair value of the net assets acquired and any resultant goodwill to be recognised as a result of the acquisition have not yet been determined. Access to information required to assess the market participant value to be assigned to individual assets acquired and liabilities assumed at the date of acquisition was necessarily limited in the period prior to the signing of these Consolidated Financial Statements. Transaction costs of £1.8 million incurred in 2022 have been expensed in the Income Statement.

<u>Reserve Based Lending facility arrangements</u>

Following completion of the acquisition on 23 March 2023, the Serica Group now has reserve-based lending and junior facility arrangements that are linked to the legacy Tailwind sub-group. This has a reserve-based lending facility (RBL) of US$425 million from a syndicate of banks, secured over the Tailwind sub-group's oil and gas assets. In addition to the US$425 million committed facility, a further US$400 million is available on an uncommitted "accordion" basis. Interest accrues at LIBOR/SOFR plus a margin of between 2.5% to 3.1% depending on the maturity of the facility. The Tailwind sub-group is primarily exposed to 1 month USD LIBOR until June 2023 and 1 month term SOFR thereafter. The facility has a maturity date of 30 June 2027 and at the last RBL redetermination in February 2023, the facility available for drawdown was amended to US$366 million. At 31 March 2023, the facility was drawn by US$330 million.

On 24 September 2018, the Tailwind sub-group also entered in a Junior Facility agreement with Mercuria Energy Trading S.A. for a facility of US$50.0 million available on demand and with a maturity of 24 September 2026. This is a committed facility and funds can be utilised at Serica's discretion. There were no drawdowns on this facility as at the completion date of 23 March 2023 or to date thereafter.

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