# Serica Energy plc

# ("Serica" or the "Company")

## Results for the year ended 31 December 2023

**London, 24 April 2024** - Serica Energy plc (AIM: SQZ), a British independent upstream oil and gas company with operations in the UK North Sea today announces its audited financial results for the year ended 31 December 2023. The results are included below and copies are available at www.serica-energy.com and www.sedar.com.

**Commenting on the results, David Latin, Serica's Chairman and incoming Interim CEO, stated:**

"I am very pleased that Serica has delivered a strong set of results for 2023 despite significantly lower sales prices compared to 2022 and a full year of the UK marginal tax rate being at 75%. Any 'windfall' due to high commodity prices has long gone and the high tax situation is ill-suited to a mature oil and gas basin such as the UK North Sea. Its continuation will not benefit people in the UK either financially or environmentally.

The resilience of Serica's financial position allows the Company to maintain the final dividend at 14p per share meaning an increase in the total dividend for 2023 to 23p per share compared to 22p per share in respect of 2022. Furthermore, the £15 million share buyback initiated today is a demonstration of the Board's confidence in 2024 cash flows and the longer-term value of the Company's assets.

By virtue of its financial strength and in-house skills, Serica is able to combine cash returns to shareholders with growth through investment in its assets and an ambitious, while disciplined, M&A effort. This situation is a testament to the achievements of everyone in Serica.

Finally, I would like to take this opportunity to reiterate the Board's appreciation for Mitch Flegg's very significant contribution to the Company over many years, most recently as CEO since 2018."

**Mitch Flegg, Serica's outgoing CEO, stated:**

"The completion of the Tailwind acquisition in March 2023 represented a step change in the scale and diversity of Serica's portfolio. The merits of seeking diversity and organic growth opportunities through the transaction have been borne out by the sharp decline in gas prices relative to oil prices during 2023 and Serica maintaining its track record of more than replacing production through reserves additions in both the Bruce and Triton production hubs. Moreover, there are further growth opportunities within the Company's existing producing fields and other assets in Serica's portfolio, such as the potential Buchan Horst project.

My term as CEO ends with these results. More than the metrics of the last six years, it is the quality of the team we have built at Serica that gives me the most satisfaction and pride. Clearly, the BKR and Tailwind transactions represented the most significant organisational changes. Creating the culture and expertise of an organisation like Serica, however, is an everyday process that involves everyone in the Company. I am grateful to far too many people to mention here.

The result of the last several years is that Serica combines distinctive financial and operational strengths with a high-quality team, providing a platform for further returns to shareholders through investment and M&A."

**2023 Summary**

- Acquisition of Tailwind Energy Investment Ltd completed 23 March 2023.
- Proforma production from the combined Serica and Tailwind portfolios averaged 40,121 boe per day during 2023 as a whole. Equity production for the year as reported (excluding Tailwind volumes between 1 January and 23 March 2023) averaged 35,167 boe per day (Serica net production in 2022: 26,200 boe per day).
- Serica 2P reserves increased to 140.3 million boe at 31 December 2023 (31 December 2022: 76.9 million boe) with net upwards reserves revisions of 23.5 million boe and a proforma reserves replacement ratio of 179% for the combined Serica and Tailwind portfolio.
- EBITDAX of £381.4 million (2022: £616.5 million) reflecting an average realised sales price after hedging of $63 per boe compared to $104 per boe in 2022.
- Final 2023 dividend of 14p per share recommended (2022: 14p per share), bringing 2023 full year total to 23p per share compared to 22p per share for 2022, an increase of 4.5%.

**Financial**

- Average 2023 realised sales price, after hedging, of approximately US$63 per boe (2022: US$104 per boe) comprising average realised prices for gas of 93 pence per therm, oil of US$71 per barrel and NGLs of £363 per tonne.
- Revenue of £632.6 million (2022: £812.4 million), largely reflecting lower natural gas prices partially offset by nine months of production contribution from the Tailwind assets.
- EBITDAX of £381.4 million (2022: £616.5 million) reflecting the lower commodity prices whilst operating costs increased largely in line with higher production, albeit with some inflationary impact.
- Profit before tax of £305.6 million (2022: £488.2 million).
- Profit after tax of £103.0 million (2022: £177.8 million) reflecting current tax charges of £183.3 million (2022: £277.7 million) deriving an effective tax rate of 48% (2022: 45%), notwithstanding an increase in the marginal overall rate of tax on UK oil and gas production to 75% during 2023 and with the benefit for only nine rather than twelve months of Tailwind's brought forward tax losses.
- Cash flow from operations, after deduction of 2023 current tax, of £195 million[1] (2022: £427 million). Serica considers this measure to be representative of the cash generation of the business prior to discretionary decisions regarding capital allocation.
- Capital expenditure (including exploration and abandonment) of £79.2 million largely comprising Bruce well work and long lead items for the Triton area drilling campaign commencing in 2024 (2022: £98.3 million).

[1] Comprising Cash flow from operations of £378.4 million less Current tax of £183.3 million (2022: £704.9 million less £277.7 million).

- Cash dividends paid of £88.8 million (2022: £46.3 million) for 2022 Final and 2023 Interim dividends.

- Gross cash and cash equivalents, including £28 million of cash security temporarily lodged with a third party in respect of decommissioning obligations, of £291.0 million at 31 December 2023 (2022: £432.5 million) after capital expenditure (£79.2 million), dividends (£88.8 million) and tax paid (£279.5 million).

- Amount drawn at 31 December 2023 under the RBL facility assumed with the Tailwind acquisition of US$271.2 million (£213.0 million).

- Net cash of £78.0 million (2022: £432.5 million).

- Executed a refinancing into new six-year US$525 Reserve Base Lending ("**RBL**") facility with a syndicate of international banks (facility completed and borrowings assumed with the Tailwind acquisition were repaid in January 2024).

**Operational**

- Updated independent audit of field reserves reported Serica's share of estimated remaining 2P reserves as 140.3 million boe at 31 December 2023 increased from 76.9 million boe at 31 December 2022. Movements in the year include:
    - Acquisitions of 52.2 million boe relating to the completion of the acquisition of Tailwind Energy Investments Ltd on 23 March 2023.
    - Net upward revisions of 23.5 million boe reflecting better than expected production performance in the Rhum and Gannet E fields, the movement of Belinda from contingent resources to 2P reserves and the maturing of projects to enhance production from the Bruce and Rhum fields.

- A series of surveillance and interventions carried out on several Bruce wells by means of platform based and Light Well Intervention Vessel ("**LWIV**") activities. These interventions delivered incremental near-term production and identified additional intervention opportunities for future well campaigns.

- The GE-04 well on the Gannet E field came onstream in February 2023 and achieved initial rates higher than pre-drill estimates. This contributed to the Triton hub reaching gross production levels in excess of 30,000 boe per day for the first time in ten years.

- A 'walk to work' campaign was conducted on the Triton FPSO, continuing the maintenance and upgrades that have been pivotal in improving the performance of the facilities and hydrocarbon throughput. A key item of work currently is the replacement of the Triton control system, which is planned to be completed during a further 'walk to work' campaign planned in 2024.

- Work was carried out to remove power supply vulnerabilities to the Rhum field including the installation of a new power umbilical on one of the three Rhum production wells.

- Planned shutdowns in 2023 of both the Bruce and Triton hubs to carry out essential maintenance and life extension work were extended unexpectedly. On Bruce, it was decided to make permanent rather than temporary repairs to issues identified on the flare tower during an inspection, which, in combination with bad weather, caused an approximate one-month overrun. The Triton shutdown was extended due to a combination of equipment and control system issues, which are now resolved.

- Serica elected to relinquish the P.2501 North Eigg licence following the evaluation of the results of the exploration well on the prospect in 2022. The relinquishment will be completed during 2024.

**ESG**

- Achieved lowest Scope 1 Carbon Intensity (16.36kg $CO_2$/boe) since taking operatorship of Bruce.

- Received Supply Chain Principles Gold Award for companies demonstrating outstanding commitment to business relationships.

- 33% reduction in methane emissions compared to 2022.

- Awarded Gold Standard Pathway for methane reduction and monitoring plans from the Oil and Gas Methane Partnership (OGMP) 2.0.

**Outlook**

- The Triton area drilling campaign started earlier this month with the first well in the programme being the B1z sidetrack on the Bittern field. The programme using the COSLInnovator rig now comprises five wells with the addition of the 100% owned Belinda development well. Serica has taken a final investment decision on Belinda and is waiting for NSTA approval of the field development plan.

- An extensive programme of well interventions is being carried out on the Bruce and Keith fields during 2024. It is hoped to bring the Keith field back into regular production during this year.

- Capital expenditure in 2024 (cash spent) is estimated at around £170 million, based on sanctioned projects previously disclosed, plus up to £25 million on the newly sanctioned Belinda development.

- The production guidance range for 2024 is updated to 41,000 – 46,000 boe/d. The narrowing of the range from 41,000 – 48,000 boe/d factors in the unplanned shut-in of Erskine (production recently restarted and expected to ramp up), production to date in 2024 from the rest of the portfolio and the later than expected start of the Triton area drilling programme. Notwithstanding the shut-in of Erskine, production in 2024 year-to-date[2] has averaged about 45,400 boe per day. Production in the second half of 2024 will be impacted by the planned 40-day shutdown of the Triton area for maintenance work.

- Targeting operating costs at around US$20 per boe produced during 2024 despite significant inflationary pressures.

- Production for 2025 is anticipated to be in the same range (41,000 – 46,000 boe/d) as 2024 reflecting the updated view coming out of 2024 and slippage in some of the planned work in the Bruce and Triton hubs.

- New commodity price hedges being added to supplement the existing fixed price hedges coming to an end during 1H 2024. Initially, these are weighted towards oil in view of current market levels, run through to Q1 2026 and are mainly 'collars' affording downside protection while retaining upside exposure. Currently[3], hedges are approaching a quarter of Serica's projected production volumes (c.10 kboe/d for 2024, tapering to around 6 kboe/d by Q1 2026).

- A draft FDP has been submitted for the Buchan Horst field. As with all major capital projects, a final investment decision, which is not expected before the latter part of

[2] 14 April 2024

[3] As at 18 April 2024

2024, depends in part on the impact on project economics of expectations for the future tax regime which will apply through the life of the project.

- Subject to shareholder approval at the AGM, a final 2023 dividend of 14p per share will be payable on 24 July 2024 to shareholders registered on 28 June 2024 with an ex-dividend date of 27 June 2024.

- Additionally, a £15 million share buyback is being initiated today under the authority granted at the AGM in 2023. This reflects the confidence of the Board in the Company's current financial position, the cash generating capacity of the portfolio during 2024 and the long-term value of the assets. Serica will look to provide further detail on its future policy of cash returns to shareholders in due course. This policy will be framed by reference to Serica's post-tax operating cash flow, its organic and inorganic investment opportunities, and the maintenance of a prudent balance sheet.

- After six years on the Serica Board, Malcolm Webb has informed the Board of his wish not to stand for re-election at the forthcoming AGM. As chair of the Nominations Committee, Malcolm will continue to lead the CEO recruitment process. It is anticipated that an announcement on the conclusion of this process will be made by the time of the AGM in June. The Board is very grateful for Malcolm's considerable contribution to the transformation of the Company over the last several years.

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

**Investor Presentation**

David Latin (Chairman and Interim CEO) and Martin Copeland (CFO) will provide a live presentation relating to the full year results via the Investor Meet Company platform today at 2.00pm BST.

The presentation is open to all existing and potential shareholders. Questions can be submitted via the Investor Meet Company dashboard at any time during the live presentation.

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

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

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

**Regulatory**

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

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

**Enquiries:**


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**CHAIRMAN'S STATEMENT**

Dear Shareholder

Without doubt times are currently difficult for independent oil and gas companies working in the UK. However, I am pleased to say that Serica is no ordinary company, and it is strong and well equipped to withstand the current headwinds. The purpose of the Company remains to contribute responsibly towards meeting the world's energy needs through the safe and efficient production of hydrocarbons. Its Board is resolute that it will stay focussed on responsible capital allocation to invest prudently in our business whilst also delivering increasing returns for shareholders over time. We do this by investing in our mid to late life assets, optimising them and extending their lives, while seeking opportunities to further add value through operationally and financially accretive acquisitions. Given the significant fiscal uncertainty driven by both major political parties in the UK, we have stepped up efforts to identify attractive opportunities to apply our approach in the broader North Sea region.

2023 in Overview

In operational terms, 2023 was another year of sound progress at Serica. Notwithstanding an unexpectedly long summer maintenance shut down, we again delivered within the range of our production guidance, and more than replaced production for the 6th year in succession.

The troubling developments in 2023 (and sadly again in 2024) came from Westminster. First, the Government elected to keep its supposed 'Windfall' Profits Tax in place long after any possible justification for it based on oil and gas prices had disappeared and then most recently in the Spring budget announced that they would extend it by a further year to 2029. Second, the Labour Party announced that, if elected to Government, they would not only increase the rate of the tax to 78% but also significantly reduce the amount of capital relief on investment as compared to the current regime. Uncertainty caused by political short termism risks killing off investment across the UK sector of the North Sea and with it the associated high-quality jobs this creates throughout the UK. It would seem that the established policy of maximising the economic recovery of the UK's remaining reserves of oil and gas in support of the energy transition has been abandoned. Instead, our politicians appear to have embarked on a race to the bottom with policy aimed at maximising the near-term Government take, notwithstanding that this will necessarily accelerate both production decline and the timing of decommissioning, which in turn will inevitably reduce Government overall receipts from UKCS and serve only to increase imports of oil and gas to the UK. Imported production can easily be interrupted, pays no UK taxes, sustains no UK jobs, and often involves greater carbon emissions. This policy volte face is a sad demonstration of the elevated level of UK political risk which our industry now faces and has necessarily caused all companies operating on the UKCS, including Serica, to reconsider their UK investment plans.

Significant Developments in 2023

The acquisition of Tailwind Energy was completed in March. Amongst other benefits flowing from this acquisition, our portfolio of producing assets became more evenly balanced between oil and gas, which had the consequence (consistent with one of our objectives from the Tailwind transaction) of reducing the impact of falling gas prices through the year – a trend which has continued into 2024. Serica also signed an innovative deal to add to our resource hopper by farming into Jersey Oil and Gas's project to redevelop existing discovered resources in the Buchan field. We will be continuing to work this pre-sanction opportunity with our partners in the field during 2024. At the same time, our team supplemented by the expertise of our new former Tailwind colleagues, continued to identify opportunities to invest in our existing assets, providing significant additions to our oil and gas reserves in both our hubs, and so providing potential to defer decommissioning activities.

The Company's Finances

Serica's finances remain strong despite reduced commodity prices and the impact of unwelcome high tax rates, with revenues of £633 million (£812 million in 2022). Group Profit before taxation for 2023 amounts to £306 million (£488 million in 2022). After providing for the impact of materially increased taxes, profit after tax for 2023 was £103 million (£178 million in 2022). Furthermore, the Company retains the confidence of major financial institutions and hence was able to raise significant support in the form of a new US$525 million reserve-based loan facility completed in January 2024. This loan facility, together with our existing cash balances, provide us with flexibility for capital allocation in line with our stated strategy of investing in our assets, disciplined M&A and ensuring robust shareholder distributions.

Outlook and Policy

Notwithstanding the current political turbulence, Serica will continue to seek ways to invest in our UK assets where we believe such investments will create value for our shareholders. Given our operational skills and very low exposure to decommissioning cost (our liabilities are among the lowest in the UKCS), we are better placed to do this than most. However, our ambitions for increased shareholder value are far greater than simply maximising returns from our current portfolio of assets. If good opportunities for increased value should arise in the UK of course we will not ignore them, but in the current circumstances we must consider other alternatives. Hence the Board has now refocused and increased its search for projects outside the UK where we believe we can deploy our skillsets to deliver increased shareholder value. We are currently focussed on identifying attractive opportunities in the broader North Sea region beyond the UK. However, we will remain disciplined and will only invest in projects or make acquisitions where we are confident that they will deliver increased value and returns for shareholders.

Shareholder Distributions

The Board of Serica is committed to a shareholder distribution policy which reflects the underlying performance and ambitions of the Company and so provides a good return to shareholders whilst also leaving room for investment in continuing asset growth. The total dividend for 2022 was 22 pence per share returning £76 million to shareholders. In November 2023 we paid an interim dividend of 9 pence per share. Subject to approval of shareholders at the Annual General Meeting in June 2024, we are proposing a final dividend of 14 pence per share, bringing the total dividend for the year to 23 pence per share. In addition, in response to the Board's view on the intrinsic value of the Company, we are today announcing a Share Buyback programme which will contribute to the shareholder distributions in respect of 2024.

Board and Management Changes

In February 2024, after many years of exemplary service within the Company and having played a leading role in the structuring and closing of the BKR acquisition, Andy Bell retired. I was then delighted to welcome Martin Copeland to the Board as the new Chief Financial Officer. Martin has a wealth of highly relevant experience in the banking and M&A sectors and is a fine addition to the team. We are extremely grateful that Andy has stayed on to provide support to ensure a smooth transition of the CFO role.

Also in January, we announced that Mitch Flegg will step down from his role as CEO in April following publication of the 2023 results. Mitch is leaving the Company later this year after the AGM with our heartfelt thanks for all his excellent work over his six years as CEO and before that as COO. Amongst his many achievements, Mitch successfully managed the integration of the BKR assets and led the acquisition and integration of Tailwind in 2023. He will leave a Company in robust health positioned for future growth.

As previously announced, upon Mitch's departure I will move into the role of interim CEO during the search to identify and appoint a permanent CEO to lead the next phase of the Company's development.

After six years on the Serica Board, Malcolm Webb our Senior Independent Director, has informed the Board of his wish not to stand for re-election at the AGM. As chair of the Nominations Committee, Malcolm will continue to lead the CEO recruitment process which is now at an advanced stage. It is anticipated that an announcement on the conclusion of this process will be made by the time of the AGM in June. The Board is very grateful for Malcolm's considerable contribution to the transformation of the Company over the last several years.

I wish to take this opportunity to record a special tribute to Tony Craven Walker, who retired as Chairman of the Board in June 2023. Tony is a legendary figure in the industry and the effective founder and creator of Serica as we know it today. It is not an overstatement to say that without Tony, Serica would not have survived, let alone thrived as it has. His was the inspiration behind the Erskine deal and the genius and determination behind the company-making BKR acquisition. But above and beyond all that, Tony inspired the commercial, operational and corporate aspirations of our Company. We continue to aspire to the high standards that he set. We are also so very pleased and honoured that he remains a substantial shareholder in the Company.

Finally, and on behalf of the Board I extend thanks to the Serica team, especially to all employees, whether based in Aberdeen, London or Offshore, for their efforts throughout the last year and the enthusiasm and professionalism which they bring to their work every day. Thanks also to colleagues working alongside us in our supply chain, whose partnership is a vital element of our continued success. And, last but not least, a thank you to all shareholders for your investment in and support for our Company, which I can assure you is greatly appreciated and which I and all at Serica will do our very best to justify.

David Latin
Chairman

23 April 2024

**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 2023.

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**

During 2023, Serica grew and diversified its business through acquisition, maintained its record of reserves replacement and prepared for significant new well programmes linked to its existing fields and infrastructure. These investments, to be carried out over the next twelve months, offer the prospect of additional near term production with minimal additions to total operating costs and carbon emissions.

In addition, the new financing facility brings increased capacity with duration extended to end 2029, strengthening Serica's capability to pursue further growth.

The acquisition of Tailwind Energy Investments Ltd, was completed in March 2023 and has provided operational diversity and scale for Serica. The net proforma production from the combined portfolio for 2023 was 40,121 boe/d, which was split 56% gas and 44% oil. This split between oil and gas is far more balanced than in 2022 when Serica's production was 91% gas.

Market benchmark gas prices were significantly reduced at an average of 99p/therm in 2023 compared with 198p/therm in 2022 (and have fallen to an average of only 69p in the first quarter of 2024). Oil prices were more resilient averaging US$83/bbl (US$101/bbl in 2022).

The Tailwind assets have therefore provided Serica with substantial protection against the significant fall in gas prices. 86% of Serica's production is operated and the Bruce, Keith and Rhum contribution is now around 50% of net production rather than 80% prior to the Tailwind transaction.

Serica has maintained its record of more than replacing reserves since 2018 with net Proved plus Probable ("2P") reserves on 31 December 2023 of 140 million boe, up 10 million boe from 130 million boe at 31 December 2022 despite producing 14.6 million boe in 2023 on a proforma combined Serica and Tailwind basis. This addition of 24 million boe during 2023 represents a reserves replacement ratio of 179% with over 90% of the 2P reserves in fields that are already in production.

The Company is therefore continuing with its growth strategy of investment in projects designed to enhance and extend future production profiles. The Tailwind portfolio came with several short-cycle, highly value-adding opportunities which were matured in 2023 and will be exploited by our ongoing four well drilling programme which is also being undertaken with the benefit of the current capital allowances and with the resultant production sheltered by the ring-fence tax losses we acquired with Tailwind. This comprises wells on Bittern, Gannet E, Guillemot NW and Evelyn. We are now anticipating a fifth well, on the Belinda development, pending final NSTA approval of the field development plan. Following the success of last year's Light Well Intervention Vessel ("LWIV") programme on Bruce, a second campaign was executed in 2023, and a third campaign is now ongoing.

The common theme amongst these capital projects is that they are all designed to add production quickly from existing fields without the requirement for substantial new infrastructure. We continue to focus on emissions reduction whilst maximising production. Carbon intensity (emissions divided by production) from the Bruce hub for 2023 was 16.4kg $CO_2$/boe, significantly lower than the average for offshore UK Facilities of 19.8 kg $CO_2$/boe[4]. The absolute level of $CO_2$ emissions is approximately 27% lower than the 2018 benchmark levels. On Triton, the 2023 carbon intensity was 20.6kg $CO_2$/boe, which represents a reduction of roughly 20% from 2022. As new production from Serica's

[4] 2022 *NSTA Emissions Monitoring Report (2023 numbers not yet published)*

forthcoming drilling campaign will be tied back to existing offtake facilities, such additions add reserves without adding significant carbon emissions.

The UK remains heavily reliant on energy imports; our energy production is only 60% of demand and oil and gas comprise three quarters of our energy use. The growth of offshore wind, hydrogen and CCS will underpin the UK's net zero emissions future, but oil and gas will provide the bridge to that future.

Energy prices have fallen back to pre-crisis levels and are showing greater stability. This leads to lower costs for homes and businesses and lower overall inflation. The UK Energy Profits Levy ("**EPL**") has a significant impact on post-tax profitability for all UK oil and gas producers. The EPL is a wholly unwelcome burden that is already leading to the delay and cancellation of longer-term investment projects across the sector. Current oil and gas prices do not represent windfall conditions for UK producers and the increased tax burden on domestic oil and gas production is damaging for UK jobs.

However, the substantial tax losses acquired with the Tailwind transaction have had the effect of lowering Serica's effective rate of taxation and so we are still attempting to add investment opportunities to the portfolio. In October we announced the award of Block 29/2a containing the decommissioned Kyle oil field. This field ceased production in June 2020 and the host FPSO at the time was subsequently removed. During an initial two-year licence period, Serica will carry out studies to determine the feasibility of re-developing the Kyle field by means of a subsea tie-back to the Triton FPSO vessel via the Bittern field facilities.

In November we announced the acquisition of a 30% non-operated interest in the Greater Buchan Area from Jersey Oil & Gas ("JOG"). The partners in the project are Serica Energy (UK) Limited (30%), NEO Energy (50% and operator) and JOG (20%). This provides Serica with the option of participating in the re-development of the Buchan field (formally re-named 'Buchan Horst') and other potential projects in the GBA, such as the development of the J2 and Verbier discoveries.

Given the challenging UK fiscal regime we continue to seek M&A opportunities elsewhere in the North Sea. For example, Norway offers a wide range of sub-surface opportunities and a relatively stable fiscal regime but less deal flow than UKCS. We are adopting a disciplined and patient approach exploiting Serica's technical skills, financial capacity and relationships.

Finally, this is my last 'CEO Review', and I would like to take the opportunity to thank everyone who has helped build Serica into what it is today. The support of shareholders, analysts, regulators, and contractors has been outstanding, but it is the efforts and skills of the exceptional workforce that has established a company with such strong operational and financial foundations. Serica is extremely well placed to continue its growth trajectory.

Mitch Flegg
Chief Executive Officer
23 April 2024

## ACQUISITION OF TAILWIND ENERGY INVESTMENTS LTD

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.

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.

## 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 western part of the Bruce field and is tied back to the existing facilities.

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 NGLs. Oil is exported through the Forties Pipeline System to Grangemouth.

In the first half of 2023 Serica completed the replacement and upgrade of the control system for the Bruce platform, increasing the amount of data that can be captured and processed, helping us to unlock the ability to implement AI based improvements to our control, monitoring and maintenance activities.

We also successfully carried out the replacement of the subsea control modules on the WAD manifold to support the LWIV activity which took place in Q3 2023 and which will support ongoing LWIV activities in the future.

On the platform topsides a series of surveillance and intervention activities were undertaken on a number of the Bruce wells, verifying well integrity, identifying future production options and implementing several simple interventions to boost production.

Major works were undertaken during the summer outage to replace the main platform flare tip, 140 metres above the sea surface requiring a heli-lift, along with major overhauls of the glycol system and a booster compressor. The extensive maintenance campaigns were all integrity and reliability focussed helping to underpin the plans to extend Bruce production to 2035+. The programme duration was extended to approximately two months following inspection findings on the flare tower during the planned work. The decision was taken to carry out permanent rather than temporary repairs. These repairs at height were hampered by bad weather, delaying the return of Bruce and Rhum to production.

The 2023 LWIV campaign comprised work on the Bruce M3, M6 and M4 wells including scale removal, water shut-off, reperforation and the addition of new perforations. The programme was successfully executed boosting overall Bruce production capability. A further LWIV campaign, covering two Bruce wells, commenced in April 2024.

Bruce field production in 2023, which averaged circa 6,500 boe/d of oil and gas net to Serica (2022: 6,900 boe/d) was impacted by the extended summer shut-in.

An independent reserves report by RISC estimated 2P reserves of 41.7 million boe net to Serica as of 1 January 2024 (2023: 31.8 million boe). This represents a significant uplift in reserves compared to year end 2022 and not withstanding 2023 production. This is predominantly attributed to the maturation of the South Central East infill well from contingent resources, the inclusion of an 8 well platform intervention campaign for 2024 and also a performance uplift observed in certain producing wells. This was partially offset by deferral of the Bruce enhanced recovery project so as to prioritise these other projects.

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

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. The well has been shut-in since 2022 due to a fault in the electrical supply.

During 2023 the Keith subsea control module was changed out to allow the planned LWIV intervention in Q2 2024 to restore production from the field.

An independent reserves report by RISC estimated 2P reserves of 3.2 million boe net to Serica as of 1 January 2024 (2023: 2.4 million boe). These reserves are based upon the 2023 activities and planned LWIV programme in Q2 2024.

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.

A new power umbilical was installed on the R1 well in March 2023 and further works to remove power supply vulnerabilities to Rhum were carried out in the summer. Topsides works in the first half of the year increased the throughput limits of the Rhum separator creating more capacity for any future production increases.

Average Rhum field production in 2023 was circa 12,500 boe/d net to Serica compared to 15,700 boe/d for 2022, largely reflecting the impact of the extended summer maintenance shut-in.

An independent reserves report by RISC estimated 2P reserves of 39.2 million boe net to Serica as of 1 January 2024. The uplift in reserves compared to 36.4 million boe at year end 2022, and notwithstanding 2023 production, is predominantly attributed to the inclusion of a planned project later in field life to convert compression on the Bruce platform to low pressure operations.

Northern North Sea: Orlando Field – Block 3/3b, Serica 100% and operator (acquired from Tailwind)

Serica is operator of Orlando which is an oil field producing from a single subsea well tied into the Ninian Central facilities through an 11km pipeline. Orlando production is separated into gas and oil, with oil exported to the Sullom Voe Terminal and gas used by the Ninian operator as fuel on the platform.

Orlando produced steadily in 2023, following a workover in 2022 to replace the dual electric submersible pumps. During 1H 2023, there were some minor outages for repairs to some topsides electrical cables.

Average Orlando field production in 2023 was circa 3,500 boe/d including downtime. Average net production for the post-Tailwind acquisition period from 23 March to 31 December was 3,540 boe/d.

An independent reserves report by RISC estimated 2P reserves of 2.4 million boe net to Serica as of 1 January 2024 compared to 3.4 million boe reported by ERCE in an independent reserves report for Tailwind at end 2022.

Northern North Sea: Mansell – Block 3/8g, Serica 100% and operator (acquired from Tailwind)

The Mansell discovery is located in licence P2448 in UKCS Block 3/8g south and east of the Ninian field. Mansell was discovered by well 3/8b-10, drilled by BP in 1985, and following successful appraisal was developed as a subsea tieback to the Ninian South Platform and produced between 1992 and 1995 (field was then named Staffa). The field was shut in 1995 following waxing-up of the flowline and decommissioned. The Mansell field has 2C contingent resources of 8.3 million boe net to Serica. An extension of 2 years was awarded by the NSTA in February 2023 to allow sufficient time to evaluate the feasibility and timing of a redevelopment.

## **Central North Sea**

Central North Sea: Triton Area - Bittern 64.63%, Evelyn 100%, Gannet E 100%, Guillemot West & North West 10%, Belinda 100% (Serica % shares all acquired from Tailwind)

The Triton Area consists of eight producing oil fields Bittern, Evelyn, Gannet E, Guillemot West and Guillemot North West, Clapham, Pict and Saxon. Serica holds equity in five as listed above, as well as the undeveloped Belinda field. The Triton area fields were developed via common subsea infrastructure, located approximately 190km east of Aberdeen in water depths of approx. 90 metres. The fields produce oil and gas via the Triton Floating Production Storage & Offloading ("FPSO") vessel. Dana Petroleum Limited ("Dana") and Waldorf Production UK Limited (''Waldorf'') are our partners in the Triton cluster. Dana operate the Triton FPSO along with the Bittern, Guillemot West / North West, Clapham, Saxon, and Pict fields. Serica is operator of the Gannet E, Evelyn and Belinda fields, with Dana as pipeline operator and Petrofac as well operator.

Well GE04 on the Gannet E field was drilled and completed in Q4 2022 with a subsea tie-in to the Triton system completed during early 2023. First oil was achieved on 14 February 2023, with initial rates around 9,000 boe/d. By the end of 2023, the well had produced a total of approx. 1.34 million boe with a year-end exit rate of 6,000 boe/d.

From early July to mid-September 2023, Dana carried out an extended shutdown on Triton, supported by a six month walk-to-work campaign, which involved a vessel stationed alongside Triton to provide additional personnel on site during the fair-weather summer months so enabling additional work scopes. Critical activities completed were fabric maintenance work scopes integral to the life extension of Triton, completion of structural repairs, an upgrade to the Guillemot West separator and successful repair to the Bittern water injection pipeline. Further work was completed on the distributed Triton control system, which is planned to have been replaced fully by the end of 2024, following replacement work which was phased across the 2022 and 2023 shutdowns. The length of the 2023 summer shut-down was extended to carry out an essential repair on a piece of equipment identified during a pre-production inspection, a seawater lift pump failure and initial difficulties operating the upgraded FPSO control systems. These issues were each successfully resolved.

Production from Gannet E and Evelyn averaged 6,100 boe/d and 3,800 boe/d respectively (Serica net) in 2023. Bittern field production was steady at rates averaging circa. 4,000 boe/d (Serica net) and Guillemot West / North West at circa. 250 boe/d (Serica net). Triton gross peak rates exceeded 30,000 boe/d in March 2023 for the first time in 10 years. Two Guillemot West well workovers were completed in July 2023 and came on stream averaging 3,200 boe/d gross (320 boe/d Serica net).

A four well programme is planned for execution in 2024 and has already started with the Bittern B1z sidetrack. This will be followed by the Gannet E fifth well, a Guillemot North West infill well and an Evelyn second well. These wells will be drilled using the COSL Innovator semi-submersible rig.

In April 2024 Serica took a final investment decision on the Belinda development. Consent to the project has been received from OPRED and NSTA approval of the final Field Development Plan ("FDP") is expected shortly. Serica proposes to use the COSLInnovator to drill the Belinda development well during 1H 2025 having exercised the option for an additional 5th well in the current Triton area drilling campaign in September 2023.

Serica's average net share of Triton Area production in 2023 was circa 14,150 boe/d of oil and gas. Average net production for the post-Tailwind acquisition period from 23 March to 31 December 2023 was 13,120 boe/d.

An independent reserves report by RISC estimated 2P reserves of 49.2 million boe net to Serica as of 1 January 2024 compared to 49.4 million reported by ERCE in an independent

reserves report for Tailwind at end 2022. The uplift in reserves compared to the prior year, after taking account of 2023 production of approx. 5.2 million boe, is predominantly attributed to the transfer of volumes associated with the Belinda development from contingent resources to reserves and better than expected performance from the fourth production well on the Gannet E field which came into production during 2023.

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%.

The Erskine field has five production wells and produces oil and gas over the Erskine normally unattended installation. This is transported via a multiphase pipeline and processed on the Lomond platform which is 100% owned and operated by Harbour. Then condensate is exported down the Forties Pipeline System via the CATS riser platform at Everest and gas is exported via the CATS pipeline to the terminal at Teesside.

In 2023 Erskine produced steadily from the four currently available wells. Topsides surveillance of the W1 well was undertaken in Q3 2023 in readiness for carrying out a MODU (semi-submersible) rig-based intervention in 2024 to return the well to production. The regular pigging programme on the condensate export line has continued and no indications of wax build-up have been seen.

Erskine production levels in 2023 averaged 1,325 boe/d net (2022: 1,680 boe/d).

An independent reserves report by RISC estimated 2P reserves of 2.2 million boe net to Serica as of 1 January 2024 (2023: 3.3 million boe).

Central North Sea: Columbus Field – Blocks 23/16f and 23/21a (part), Serica 75%

Serica Energy (UK) Limited is Operator with its partner Waldorf Production Limited ("Waldorf") (25%). Following the acquisition of Tailwind Mistral Limited by the Serica group on 23 March 2023, the Serica group's net interest in Columbus increased from 50% to 75%.

The Columbus field development consists of a single horizontal well which runs along the central axis of the reservoir and was drilled in the spring of 2021 with production commencing in November 2021. Columbus is a gas condensate field.

The well is connected to the Arran export pipeline through which Columbus products are 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.

Average net Columbus production of gas and condensate in 2023 for Serica's combined 75% interest was c. 2,180 boe/d (2022: 1,900 boe/d for 50% interest). Average net production for the Group's combined 75% interest in the post-acquisition period from 23 March to 31st December 2023 was c. 2,085 boe/d.

An independent reserves report by RISC estimated 2P reserves of 2.4 million boe net to Serica's 75% field interest as of 1 January 2024 (2023: 1.1 million boe for 50% interest, equivalent to 1.7 million boe on a 75% basis). The uplift in reserves compared to the prior year, and before 2023 production is taken into account, is predominantly attributed to better than expected performance from the Columbus well.

## Outer Moray Firth

Outer Moray Firth: Buchan Horst Field – Blocks 20/5a, 205d, 21/1d & 21/1a. Serica 30%

In November 2023 Serica announced the acquisition of a 30% working interest in the Greater Buchan Area ("GBA") licences P.2498 and P.2170 with co-venture partners Jersey Oil and Gas (20%) and NEO Energy (50% and operator). The GBA encompasses several oil and gas accumulations some 150 km north-east of Aberdeen. The largest of these accumulations is the Buchan Horst field which produced for over thirty years, ceasing production in 2017 owing to the end of the useable life of the floating production facility.

An FDP submitted to the NSTA for the re-development of the area assumes a new production hub located at the Buchan Horst field utilising the FPSO vessel currently operating on the UK Western Isles fields. This is planned to come off-station in the second half of 2024.

A phased development is envisaged involving the re-development of the Buchan Horst field in Phase 1 and the possible development of the J2 and Verbier discoveries in Phase 2. Mid-case contingent resources from the Buchan Horst field alone are estimated to be in region of 70 million boe gross, making it the third largest pre-development field on the UKCS. Owing to the completion of the acquisition of the interest in GBA in February 2024, contingent resource estimates have not been independently verified as part of the RISC competent persons report for year-end 2023.

There are other discoveries and prospects in close proximity which may provide additional tie-back opportunities to the FPSO. Subject to project sanction and regulatory approval, the target for first production from Buchan Horst is Q4 2026.

## 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 P.2501 Licence as part of an out of round application comprising Blocks 3/24c and 3/29c including the North Eigg and South Eigg prospects.

The 3/24c-6B North Eigg exploration well was drilled to a depth of 5,099 metres in the Jurassic Heather formation, completing in early 2023. Following detailed interpretation of the well results, Serica decided there was insufficient accessible oil to justify re-entering the suspended well and drilling a sidetrack. After consultation with the NSTA, Serica elected to go into the second term of the P.2501 Licence for the purpose of completing the decommissioning of the North Eigg well. Only the area immediately around the well necessary for the abandonment was retained with the remainder of the block being relinquished. In late 2023 a vessel-based abandonment of the North Eigg exploration well was completed and the licence will be relinquished in 2024.

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 P2400 Licence was awarded in the 30th licence round in 2018. It is located in the Central North Sea, 60km south of the Erskine field, and comprises blocks 30/12c, 30/13c, 30/17h and 30/18c. Current equity holders are Serica 20%, Parkmead 50% (operator) and CalEnergy 30%. The licence is in phase C, which expires on 30 September 2025. The licence terms include a commitment to drill a well to a depth of 3,500 metres or 200 metres into the Chalk Group, whichever is shallower, by the end of the current phase. The Operator has proposed a vertical well targeting the Mey reservoir (primary target) and a

deeper Tor chalk reservoir (secondary target). Detailed planning is underway with a site survey scheduled for Q3 2024 and drilling in 2025.

In the region around Skerryvore, Harbour is progressing with the Talbot development, with drilling ongoing and first oil expected from Q3 2024. In a Skerryvore success case, Talbot infrastructure could provide an export route via the Judy platform and the subsequent export of produced hydrocarbons to Teesside, UK.

Licence Awards in the UK 32nd licensing round

The P2506 Licence was awarded to Serica 100% in the 32nd Licence Round in 2020 and covered blocks in the greater Bruce/Rhum area. Following a detailed subsurface evaluation in 2023, it was concluded that the prospectivity did not meet Serica's investment criteria, and the licence has now been fully relinquished with all work commitments fulfilled.

Licence Awards in the UK 33rd licensing round

On 30 October 2023 the Kyle licence in UK block 29/2c was provisionally awarded to Serica (100%) and was formalised as licence P.2616 on 31 January 2024. Kyle is a previously producing oil field, 20km southeast of Triton and represents a potential redevelopment tie-back to existing Serica equity infrastructure. Studies are underway in order to determine whether there is a viable project. There are no other work commitments.

This is a 'Straight to Second Term' licence and the work programme is already underway.

**Group Proved plus Probable Reserves ("2P")**

| | Oil | Gas | Total oil and gas[1] |
|---|---|---|---|
| | mmbbl | bcf | mmboe |
| **2P Reserves at 31 December 2022** | **18.7** | **337.4** | **76.9** |
| Acquisitions[2] | 44.5 | 44.7 | 52.2 |
| 2023 production[2] | (4.9) | (42.9) | (12.3) |
| Revisions | 11.3 | 70.8 | 23.5 |
| **2P Reserves at 31 December 2023** | **69.6** | **410.0** | **140.3** |

[1]Group reserves at 31 December 2023 above show Serica net sales values which have been converted to barrels of oil equivalent using a factor of 5.8 bcf per mmboe for reporting and comparison purposes. Group reserves at 31 December 2022 were previously converted to barrels of oil equivalent using a factor of 6.0 bcf per mmboe for reporting and comparative purposes. The opening combined reserves figure for 31 December 2022 in the table above has been restated using 5.8 bcf per mmboe. 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.

[2] Production from the Tailwind fields from the acquisition date of 23 March 2023 is included within '2023 production'.

Group Proved and Probable reserves at 31 December 2023 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").

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

## LICENCE HOLDINGS

The following table summarises the Group's licences as at 31 December 2023.

| 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 | 75% | Central North Sea |
| P1314 | 23/16f | Columbus Development Area | Operator | 75% | Central North Sea |
| P57 | 23/26a Area B | Erskine Field – Production | Non-operator | 18% | Central North Sea |
| P264 | 23/26b Area B | Erskine Field – Production | Non-operator | 18% | Central North Sea |
| P264 | 23/26b Area C | Erskine Field – Production | Non-operator | 40% | 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 |
| P215 | 21/29b | Guillemot W | Non-Operator | 50% | Central North Sea |
| P233 | 29/1a Bittern | Bittern | Operator | 100% | Central North Sea |
| P361 | 29/1b | Bittern | Non-Operator | 29.26% | Central North Sea |

| | | | | | |
|---|---|---|---|---|---|
| P13 | 21/30c A | Gannet E | Operator | 100% | Central North Sea |
| P13 | 21/25a UPPER , 21/30a UPPER | Gannet E | Non-operator | 50% | Central North Sea |
| P1606 | 3/3b | Orlando | Operator | 100% | Northern North Sea |
| P1792 | 21/30f | Evelyn/Belinda | Operator | 100% | Central North Sea |
| P2170 | 20/5b, 21/1d | Greater Buchan Area | Non-operator | 30% | Central North Sea |
| P2448 | 3/8g | Mansell/Staffa | Operator | 100% | Central North Sea |
| P2498 | 20/5a, 20/5e, 21/1a | Greater Buchan Area | Non-operator | 30% | Central North Sea |
| P2616 | 29/2c | Kyle | Operator | 100% | Central North Sea |

## FINANCIAL REVIEW

### *SUMMARY OF 2023 FINANCIAL RESULTS*

In addition to continuing strong performance from its existing assets, Serica's 2023 results benefitted from inclusion of net production and income from the Tailwind field interests from the acquisition completion date of 23 March 2023 to the year end. In order to provide a more representative picture of the enlarged group, unaudited proforma information ("PF 2023") in relation to volumes, revenues and costs including contributions from the Tailwind assets for the full calendar year, has been included in this Financial Review.

Further analysis of the summary metrics provided in the Summary Financial Information table below is detailed in the following pages of this Financial Review.

| Summary Financial Information | Units | PF 2023 | FY 2023 | FY2022 |
|---|---|---|---|---|
| **Production and pre hedging, post contract sales realised prices** | | | | |
| Production | kboepd | 40.1 | 35.2 | 26.2 |
| Sales volumes | mmboe | 14.2 | 12.3 | 9.3 |
| Natural Gas (net of NTS system charges) | p/th | 94.3 | 93.3 | 160.0 |
| Crude Oil | $/Bbl | 67.5 | 70.5 | 97.2 |
| NGLs | £/MT | 364 | 363 | 480 |
| **Income Statement** | | | | |
| Revenue | £ million | 728 | 633 | 812 |
| EBITDAX(1) | £ million | n/a | 381 | 617 |
| Profit before taxation | £ million | n/a | 306 | 488 |
| Profit after taxation | £ million | n/a | 103 | 178 |
| Basic earnings per share | pence | n/a | 29 | 65 |
| **Other key financial figures** | | | | |
| Capital expenditure(1) | £ million | | 79 | 98 |
| Operating cashflow | £ million | | 378 | 705 |
| CFFO less current tax(1) | £ million | | 195 | 427 |
| Dividends paid | £ million | | 89 | 46 |
| Adjusted Net Cash / (Debt) | £ million | | 78 | 433 |

(1) See Reconciliation of non-IFRS measures for further detail

Incorporating the business assets from the Tailwind acquisition, Serica today has a balanced mix of oil and gas and greater production resilience arising from a wider asset spread. The Group balance sheet at 31 December 2023 reflects the full set of assets and liabilities arising from the business combination, which include a reserve-based lending ("**RBL**") facility assumed through the Tailwind acquisition, which has subsequently been refinanced as a post Balance Sheet event.

Market sales prices for oil and, to a greater extent, gas were lower than for the 2022 year with NBP gas prices averaging 99p/th (2022: 198p/th) and Brent crude averaging US$83/bbl (2022: US$101/bbl). Total operating costs increased broadly in line with production volumes but with an additional impact from inflation over the year. Importantly FY 2023 saw the full impact of the EPL with a marginal ring-fence aggregate tax rate of 75% as compared to 40% for the initial months of 2022, increasing to 65% for the period from 26 May 2022.

Serica generated EBITDAX of £381.0 million compared to £616.5 million for 2022 and a profit before taxation of £305.6 million for 2023 compared to £488.2 million for 2022.

After current and deferred tax provisions of £202.6 million (2022: £310.4 million), profit for the year was £103.0 million compared to £177.8 million for 2022.

Further detail is provided in the following sections.

***Sales revenues***

| Revenue (pre hedging) | Units | PF 2023 | FY 2023 | FY 2022 |
|---|---|---|---|---|
| **Total revenue** | **£ million** | **728** | **633** | **812** |
| Gas Sales (incl contract revenue) | £ million | 358 | 347 | 690 |
| Crude Oil | £ million | 349 | 265 | 88 |
| NGLs | £ million | 21 | 20 | 34 |

The total 2023 sales revenue of £632.6 million (2022: £812.4 million) included a contribution of £242.6 million from the Tailwind assets from the acquisition date of 23 March 2023 (2022: £nil). Proforma 2023 sales revenue on the same basis would have been £728.0 million.

Sales comprised gas revenue of £346.7 million (2022: £690.2 million), oil revenue of £265.5 million (2022: £88.0 million) and NGL revenue of £20.4 million (2022: £34.2 million). The fall in gas revenue was driven by lower realised pricing compared to the unprecedented highs of 2022 whilst the threefold increase in oil revenue reflected new revenue streams from the oil-weighted Tailwind portfolio, offset partially by lower oil prices.

Total product sales volumes for the year comprised approximately 371 million therms of gas (2022: 432 million therms), 4.7 million lifted barrels of oil (2022: 1.1 million barrels) and 56,312 metric tonnes of NGLs (2022: 71,290 metric tonnes). This amounted to product sales as reported of 12.3 million boe or 14.2 million boe on a proforma basis (2022: 9.1 million boe).

Average 2023 sales prices were: 93 pence per therm (2022: 160 pence per therm including contract revenue) for gas net of NTS system fees, US$70.5 per barrel (2022: US$97.2 per barrel) for oil and £363 per metric tonne (2022: £480 per metric tonne) for NGLs. Average oil and gas sales prices reflect a mix of sales volumes sold at current spot prices and volumes sold at contracted fixed prices (reflecting an embedded hedge for volumes sold under such contracts) and are before realised hedging costs on gas price swaps.

***Gross profit***

The gross profit for 2023 was £306.6 million compared to £594.3 million for 2022. Overall cost of sales of £326.1 million compared to £218.2 million for 2022. This comprised £218.7 million of operating costs (2022: £121.0 million) and £109.2 million of non-cash depletion charges (2022: £76.9 million).

| Operating costs | Units | FY 2023 | FY 2022 |
|---|---|---|---|
| **Total operating costs** | **£ million** | **326** | **218** |
| Field operating costs | £ million | 219 | 121 |
| Lifting costs | £ million | 7 | - |
| DD&A | £ million | 109 | 77 |
| Movement in over / underlift | £ million | (9) | 20 |

(1) See Reconciliation of non-IFRS measures for further detail

The increase in overall operating costs reflected higher production volumes for the enlarged business. Operating costs as reported per boe were US$21 per boe, increased from US$15.9 per boe for 2022 mainly due to the impact of the extended summer field shut-ins which spread fixed costs over reduced production volumes and some underlying cost inflation. Proforma operating costs, including the Tailwind assets from 1 January, were lower at circa US$19 per boe. These increases were partially offset by a £9.3 million credit representing an increase during the year of the liquids underlift position (2022: charge of £20.3 million). The increase in total DD&A reflected the larger PP&E base following the Tailwind acquisition.

### *EBITDAX, operating profit before net finance costs and tax*

EBITDAX for 2023 was £381.0 million compared to £616.5 million for 2022 with the reduction very much in line with lower commodity prices and revenues.

| Operating profit to EBITDAX[(1)] | Units | FY 2023 | FY 2022 |
|---|---|---|---|
| **Operating profit** | **£ million** | **321** | **476** |
| Add back DD&A | £ million | 109 | 77 |
| Add back E&E costs | £ million | 11 | 83 |
| Deduct Unrealised hedging | £ million | (20) | (21) |
| Deduct contract revenues | £ million | (24) | - |
| Add back / (deduct) transaction costs and other | £ million | 14 | (2) |
| Add back share based payments | £ million | 4 | 4 |
| Deduct gain on acquisition | £ million | (34) | - |
| **EBITDAX[(1)]** | **£ million** | **381** | **617** |

(1) See Reconciliation of non-IFRS measures for further detail

The operating profit for 2023 was £321.2 million compared to £476.2 million for 2022 and includes a gain on acquisition of £34.0 million on the Tailwind transaction (2022: £nil).

Net hedging income of £4.8 million (2022: £24.5 million expense) comprised realised hedging expense, primarily related to gas swaps, of £15.6 million during 2023 (2022: £45.4 million expense) as well as unrealised hedging gains of £20.4 million (2022: gains of £20.9 million), mainly arising from the movement in valuation of Serica's 2022 year-end gas swap position as it fully unwound during the year.

Contract revenue of £23.9 million (2022: £nil) arose from the partial unwind of an underlying revenue offtake contract that was fair valued in connection with the Tailwind acquisition (see note 16). An original liability of £54.2 million was recognised which is released to the Income Statement across 2023 and 2024 as the underlying contract unwinds.

Exploration expenses and asset write-offs totalled £10.8 million in 2023 (2022: £82.9 million) including final charges from the North Eigg exploration well.

Administrative expenses for 2023 of £19.6 million compared to £9.2 million for 2022 and reflected the growth in activities of the Group arising following the Tailwind transaction completion and the extension of activities that this entailed, but also some non-recurring charges. In addition, transaction costs of £10.1 million (2022: £1.8 million) comprised fees and other transaction costs associated with the acquisition of Tailwind.

Currency losses of £3.6 million (2022: gains of £3.9 million) largely arose on GBP-reported US$ holdings as sterling strengthened compared to the US$ during 2023. Share-based payments were £4.0 million (2022: £3.5 million).

The gain on acquisition of £34.0 million (2022: £nil) represents the difference between the fair value of assets acquired and consideration paid or potentially payable, calculated in accordance with applicable accounting standards. Such calculations are complex and involve a range of projections and assumptions related to future costs, production volumes, sales prices, discount rates and tax.

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

Profit before taxation for 2023 of £305.6 million (2022: £488.2 million) took into account a £7.6 million charge arising from an increase in the fair value of financial liabilities (2022: £8.4 million credit), £13.5 million of finance revenue (2022: £4.5 million) and £21.5 million of finance costs (2022: £0.9 million).

The total £7.6 million charge for financial liabilities included £5.9 million related to the remaining BKR financial liabilities (2022 - £8.4 million credit) and £1.7 million for royalty liabilities and other consideration (2022: £nil). The fair value of the liabilities is re-assessed at each financial period end. The increase for the BKR liability arose from the unwinding of discount and other timing revisions on the estimated amounts of those remaining liabilities. The prior year credit reflected the impact of Serica's plan for field life extension on the BKR assets.

Finance revenue of £13.5 million (2022: £4.5 million) primarily represented interest income earned on cash deposits and has increased following the recent rises in interest rates during 2023 compared to 2022. Finance costs of £21.5 million (2022: £1.0 million) included interest payable and other charges on the debt facility acquired with the Tailwind acquisition in March 2023, the discount unwind on decommissioning provisions and other minor finance costs.

The 2023 taxation charge of £202.6 million (2022: £310.4 million) comprised current tax charges, including prior year adjustments, of £183.3 million (2022: £277.7 million) and a deferred tax charge of £19.3 million (2022: £32.7 million). The reduction in current tax charges mainly reflected lower net income and higher capital spend in 2023 as well as the utilisation of brought forward tax losses within the acquired Tailwind business. The gain on acquisition is a non-taxable accounting entry.

| Reported and Effective tax rate[1] | Units | FY 2023 | FY 2022 |
|---|---|---|---|
| **Profit before tax** | **£ million** | **306** | **488** |
| Current tax | £ million | 183 | 278 |
| Deferred tax charge | £ million | 19 | 33 |
| **Tax charge for the year** | **£ million** | **203** | **310** |
| **Book tax rate** | % | **66%** | **64%** |
| **Effective tax rate[1]** | **%** | **48%** | **45%** |
| Applicable ring-fence aggregate tax rate[1] | % | 75% | 40% - 65% |

(1) See Reconciliation of non-IFRS measures for further detail

In addition to corporation tax and supplementary charge, 2022 and 2023 full year results also include charges for the EPL. The EPL applied an additional 25% tax on profits earned from the production of UK oil and gas from 26 May 2022, increasing to 35% effective 1 January 2023. The current tax charge includes EPL charges of £97.1 million (2022: £64.3 million).

Overall, this generated a profit after taxation of £103.0 million for 2023 compared to a profit after taxation of £177.8 million for 2022. This resulted in an earnings per share of £0.29 (2022: £0.65) after taking into account the weighted average number of ordinary shares in issue.

***GROUP BALANCE SHEET***

Serica retains a strong balance sheet following completion of the Tailwind acquisition including remaining in a net cash position. This gives the Group flexibility in capital allocation including the ability to fund its ongoing capital investment programmes whilst supporting distributions to shareholders. Completion of a new financing facility to refinance the RBL, assumed as part of the Tailwind acquisition following year end has further boosted the Group's resources as it seeks new acquisition and investment opportunities. The balance sheet as at 31 December 2023 includes assets and liabilities from the acquired Tailwind business.

| Assets | FY 2023 | FY 2022 |
|---|---|---|
| | £ million | £ million |
| E&E | 2 | 1 |
| PP&E | 711 | 266 |
| Deferred tax asset | 84 | - |
| Inventory | 11 | 4 |
| Trade and other receivables | 139 | 135 |
| Hedging Security | - | 24 |
| DSA Security | 28 | - |
| Cash & cash equivalents | 263 | 433 |
| **Total Assets** | **1,238** | **862** |

| Equity and liabilities | FY 2023 | FY 2022 |
|---|---|---|
| | £ million | £ million |
| Equity | 655 | 409 |
| Borrowings | 213 | - |
| Provisions | 117 | 25 |
| Deferred tax liability | - | 153 |
| Financial liabilities | 73 | 54 |
| Contract liabilities | 29 | 1 |
| Tax payable | 54 | 150 |
| Trade and other payables | 97 | 70 |
| **Total Equity and Liabilities** | **1,238** | **862** |

Total property, plant and equipment increased from £265.9 million at year end 2022 to £711.5 million at 31 December 2023. The main driver for the significant increase in the balance is the fair value of £486.3 million attributed to the Tailwind assets upon acquisition. The acquisition of Tailwind Energy Investments Ltd is classified as a business combination and the calculation of fair value is carried out involving a series of judgements and assumptions (see note 2 - Use of judgement and estimates and sources of estimation uncertainty) in accordance with applicable accounting standards.

Net PP&E additions comprised capital expenditure during 2023 of £68.6 million across various field assets. These included expenditure on the Bruce LWIV campaign and preparations for the 2024 Triton area drilling programme. There were also increases from decommissioning asset revisions of £16.0 million offset by depletion charges for 2023 of £109.2 million (2022: £76.9 million), other depreciation charges of £0.2 million (2022: £0.2 million) and currency translation adjustments of £16.0 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.

The net deferred tax asset of £84.1 million at 31 December 2023 compared to a deferred tax liability of £153.3 million at year end 2022, mainly as a result of the inclusion of significant net deferred tax assets of £264.9 million in relation to the Tailwind acquisition. This net deferred tax asset comprised the recognition in relation to tax losses and future relief available on decommissioning, partially offset by deferred tax liabilities arising on PP&E balances. Deferred tax liabilities arising upon the Group's PP&E balances will be released in future periods as those balances are depleted.

The inventories balance of £10.9 million at 31 December 2023 increased from £4.0 million at the end of 2022 including £5.9 million for oil inventory held in the pipeline and terminal for the acquired Orlando field. Trade and other receivables increased from £134.6 million at the end of 2022 to £138.6 million at 31 December 2023.

Hedging security advances of £24.3 million at 31 December 2022 were recovered during 1H 2023 as all gas swaps and the majority of fixed forward contracts crystalised.

The decrease in cash balances from £432.5 million at 31 December 2022 to £263.5 million at 31 December 2023 reflected cash flow from operations of £378.4 million mainly offset by £279.5 million of UK tax payments, £88.8 million of dividend payments, capital expenditures of £78.3 million, net cash outflows of £44.0 million on the Tailwind acquisition (cash consideration net of cash and cash equivalents acquired), and £46.9 million (US$58.8 million) on debt repayments in the post-acquisition period. Overall cash was supplemented by Decommissioning Security Agreement ("**DSA**") cash advances of £27.5 million at 31 December 2023 (31 December 2022: £nil) when cash security temporarily lodged in respect of decommissioning obligations was released to Serica in 2024 when replaced by security in the form of letters of credit as provided under the new financing facility.

Current trade and other payables increased to £97.4 million at 31 December 2023 from £69.9 million at the end of 2022. UK corporation tax payable of £53.7 million at 31 December 2023 (31 December 2022: £150.0 million) reflects liabilities for corporation tax, supplementary charge and the EPL. The decrease over the year reflected the higher level of taxable income in late 2022 and also the timing of initial payments under the EPL.

Derivative financial liabilities of £4.4 million at 31 December 2023 largely represent the valuation of UKA Emission Trading Scheme ("**ETS**") swaps in place at the period end following the Tailwind acquisition. The 31 December 2022 liability of £24.9 million reflected Serica's gas swaps in place at that date which unwound during 2023.

Contract liabilities of £28.8 million reflect the outstanding portion of an underlying revenue offtake contract that was fair valued in connection with the Tailwind acquisition (see note 16). An original liability of £54.2 million was recognised which is released to the Income Statement across 2023 and 2024 as the underlying contract unwinds.

Financial liabilities of £68.6 million (31 December 2022: £29.4 million) are split between current liabilities of £3.6 million (31 December 2022: £nil) and non-current liabilities of £65.0 million (31 December 2022: £29.4 million). Non-current financial liabilities comprise remaining deferred consideration projected to be paid under the BKR acquisition agreements of £35.3 million (31 December 2022: £29.4 million) and royalty liabilities of £29.7 million (31 December 2022: £nil) for amounts payable to third parties under the terms of Triton asset acquisitions previously made by Tailwind. Current liabilities reflect the final contingent consideration payment of shares issued in March 2024 in respect of the Tailwind acquisition.

Provisions of £116.9 million (split current of £12.9 million and non-current of £103.9 million) predominantly relate to future decommissioning obligations. The significant increase from the prior year balance of £25.2 million was largely due to £75.9 million of balances within the Tailwind acquisition representing the net exposure retained by Tailwind

after reflecting the contractual undertakings in asset purchase agreements under which the Tailwind field interests were acquired, increases of £16.4 million from revisions to estimates in the year and a charge of £2.9 million from the unwinding of the discounts applied. Increases were partially offset by currency translation adjustments and some minor spend in the period.

Interest bearing loans of £213.0 million at 31 December 2023 (31 December 2022: £nil) comprise the RBL facility assumed with the Tailwind acquisition. Amounts drawn in US dollars under the facility at 31 December 2023 were US$271.2 million which are disclosed as gross drawings as all remaining unamortised fees were expensed at year end given the impending refinancing. The facility was US$330 million drawn at the date of acquisition with net repayments of US$58.8 million made in the post-acquisition period to 31 December 2023. Although this facility was repaid and replaced by a new financing facility in January 2024 it has been classified under non-current liabilities at year end 2023 as there were no contractual obligations existing at the year end to make repayments within one year.

Overall, net assets have increased from £408.7 million at year end 2022 to £655.3 million at 31 December 2023.

The increase in share capital from £183.2 million to £192.9 million arose from shares issued following the exercise of share options, shares issued under employee share schemes and the nominal value of shares issued for the Tailwind acquisition, whilst the increase in other reserves from £25.6 million to £29.6 million arose from share-based payments related to share option awards. The merger reserve of £230.4 million in the consolidated Group accounts arose in connection with the shares issued for the Tailwind acquisition.

### *CASH BALANCES AND FUTURE COMMITMENTS*

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

At 31 December 2023 the Group held adjusted net cash of £78 million. This consisted of cash and cash equivalents of £263.5 million (31 December 2022: £432.5 million) plus £27.5 million of DSA cash advances net of the RBL drawings of £213 million (31 December 2022: £nil). The DSA cash advance of £27.5 million was temporarily lodged in respect of decommissioning obligations and then released to Serica in 2024 when replaced by security in the form of letters of credit as provided under the new financing facility.

| Adjusted Net Cash / (Debt) | FY 2023 | FY 2022 |
|---|---|---|
| | £ million | £ million |
| Interest bearing loans | (213) | - |
| Cash & Cash Equivalents | 263 | 433 |
| DSA Security | 28 | - |
| **Adjusted Net Cash / (Debt)** | **78** | **433** |

Cash hedging security advances of £24.3 million that had been lodged with hedge counterparties at 31 December 2022 as security against settlement of future gas hedge instruments were fully recovered during the 1H 2023 period. Of total cash and cash equivalents, £18.3 million was held in restricted accounts against letters of credit issued in respect of certain decommissioning liabilities as at 31 December 2023 (31 December 2022: £18.1 million).

As at 22 April 2024, the Company held cash and cash equivalents of £264.7 million and debt drawings of US$231 million (£186.7 million). This is after 2023 final tax payments of £58.2 million, capital spend and drawings under the new finance facility totalling £9.7

million to cover arrangement fees and other costs of the refinancing. This excludes approx. £19 million of revenues from the March Triton oil lifting due for receipt on 1 May 2024.

*Hedging*

Serica carries out hedging activity to manage commodity price risk, to meet its contracted arrangements under its RBL facility and to ensure there is sufficient funding for future investments. At 31 December 2023 Serica held the following instruments:

Oil - fixed pricing under oil offtake agreements: for 2024 approximately 2.5 million barrels at an average price of US$67 per barrel. These are applied to individual oil tanker liftings from the Triton area FPSO and are expected to be fully utilised during 1H 2024.

UKA ETS - fixed price swaps for UKA ETS products consisting of 132,000 MT at £79.24/MT for 2024. These are spread over 2024.

Since year end Serica has added further oil hedges plus some gas hedges. At 18 April 2024 Serica held the following commodity price hedges:

| Oil Hedging | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Units | Q1 2024 | Q2 2024 | Q3 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | Q1 2026 |
| Weighted average prices: | | | | | | | | | | |
| Puts net | $/Bbl | | | 68 | 68 | | | | | |
| Swap Price | $/Bbl | 66 | 69 | 81 | 81 | 81 | 75 | 75 | 75 | 75 |
| Collar floor | $/Bbl | | - | 68 | 68 | 68 | 69 | 68 | 68 | 69 |
| **Average Floor** | **$/Bbl** | **66** | **69** | **72** | **71** | **72** | **69** | **69** | **69** | **70** |
| **Collar Ceiling** | **$/Bbl** | **N/A** | **N/A** | **111** | **100** | **96** | **88** | **88** | **86** | **86** |
| Puts | '000 bpd | | | 3.0 | 2.0 | | | | | |
| Swaps | '000 bpd | 12.8 | 14.6 | 2.0 | 2.0 | 2.0 | 0.8 | 0.8 | 0.8 | 0.8 |
| Collars | '000 bpd | | | 2.0 | 4.0 | 4.0 | 5.0 | 4.8 | 4.5 | 3.0 |
| **Hedged Volume** | **'000 bpd** | **13** | **15** | **7** | **8** | **6** | **6** | **6** | **5** | **4** |

| Gas Hedging | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Units | Q1 2024 | Q2 2024 | Q3 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | Q1 2026 |
| Weighted Average Prices: | | | | | | | | | | |
| Swap Price | p/therm | | 71 | 71 | 84 | 84 | 77 | 77 | 84 | 87 |
| Collar floor | p/therm | | | | 80 | 80 | 70 | 70 | 80 | 80 |
| **Floor Average** | **p/therm** | **-** | **71** | **71** | **82** | **81** | **74** | **74** | **83** | **84** |
| **Collar ceiling** | **p/therm** | **N/A** | **N/A** | **N/A** | **120** | **125** | **115** | **115** | **130** | **130** |
| Swaps | '000 therms pd | | 84 | 100 | 100 | 100 | 100 | 100 | 100 | 50 |
| Collars | '000 therms pd | | | | 50 | 150 | 50 | 50 | 50 | 50 |
| **Hedged Volume** | **000 therms pd** | **-** | **84** | **100** | **150** | **250** | **150** | **150** | **150** | **100** |
| **Hedged Volume** | **'000 boepd** | **-** | **1** | **2** | **3** | **4** | **3** | **3** | **3** | **2** |

***Field and other capital commitments***

Serica's planned 2024 investment programme includes a LWIV campaign on the Bruce and Keith fields and a four-well drilling campaign in the Triton Area (Bittern B1z, Gannet GE-05, Evelyn Phase 2 (EV02) and a Guillemot NW infill well). Potential further programmes to enhance current production profiles and extend field life are under consideration but will be reviewed carefully in the light of the uncertainty related to the UKCS fiscal regime. In April 2024 Serica took a final investment decision on the Belinda development. Consent to the project has been received from OPRED and NSTA approval of the final FDP is expected shortly.

At 31 December 2023, the Group had commitments for future capital expenditure relating to its oil and gas properties amounting to £214 million which relate primarily to the Triton

Area four well programme, the Bruce and Keith LWIVs, other capital works on Bruce, Erskine, Arthur decommissioning and general exploration.

The Group's only significant exploration commitment is a commitment well on Licence P2400 (Skerryvore – Serica 20%) to be drilled before October 2025.

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.

**OTHER**

***Asset values***

At 31 December 2023, Serica's market capitalisation stood at £898.5 million based upon a share price of 229.6 pence which exceeded the net asset value of £655.3 million. By 22 April the Company's market capitalisation had decreased to £764.1 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 and to meet minimum hedge requirements under its debt financing facility.

The introduction of the Energy Profits Levy in May 2022, increased and extended in November 2022 and then extended again in March 2024, has increased the perceived risk of continuing fiscal instability directed at UK oil and gas producers. Serica is monitoring this situation and making representations to relevant authorities on the risks that this presents to future UK investment in a critical national resource.

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 oil and gas assets and acreage capable of delivering returns to shareholders. This is principally conducted through acquisitions of development or producing assets to which it can add further value and through efficient operations and the addition of further 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 hindering fundraising | • Management regularly communicates its strategy to shareholders<br>• Focus is placed on building a diverse and resilient asset portfolio capable of offering investment options throughout the business cycle<br>• Serica has recently refinanced its debt facility with a diverse group of international banks and extended the duration to end 2029. |
| 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 Group seeks to diversify its revenue streams<br>• Management determines and retains an appropriate level of working capital<br>• The Group carries business interruption cover |
| Safety may be compromised or control of wells may be lost | • Safe operating procedures are applied and continually updated<br>• Emergency response planning is carried out and rehearsed regularly |
| Asset integrity of the production facilities may cause production or HSE disruptions | • Strict adherence is applied to Company 'Integrity Management Framework' and Performance Standards<br>• The Company runs a 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<br>• 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<br>• 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<br>• 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<br>• 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<br>• 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<br>• Responsible personnel are designated at all appropriate levels<br>• 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 and adding risk to future investment planning | • 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<br>• Oil and gas floor price hedging is utilised where deemed cost effective<br>• 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<br>• 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<br>• The Company aligns its standards and objectives with government policies as closely as possible |
| Serica's reputation may be damaged impacting its ability to raise finance or sustain operations | • The Company adheres to good governance practices and compliance with legislation and regulations. |
| Climate change brings a range of risks to the Group's operations, its ability to continue investing and its reputation | • These risks, mitigations and associated disclosure requirements, are covered in detail in the following section on 'TCFD'. |

**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 75 and 76 and also in a separate ESG Report.

The TCFD framework aims to formalise the implementation and 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 has continuously developed its capabilities to analyse and report climate-related risks giving consideration to the TCFD guidance.

This disclosure has been made on a voluntary basis and is a summary of Serica's wider Climate-Related Risk disclosure, which is available separately on Serica's website. This summary of disclosures is not in full alignment with all 11 recommendations of the TCFD. The Company recognises the release and implementation of the IFRS S1 and S2 standards and in 2024, will work to enhance and align its disclosures to these standards.

**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 committees 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 Sustainability Committee, which was formed in 2023, reports to the Board on the effectiveness of the Company's ESG Programmes and the management of climate-related risks and opportunities. The Committee also reviews Serica's environmental performance for both operated and non-operated assets and has input into metrics and targets used to measure environmental performance. The Committee aids in steering Serica's long-term emissions reduction strategy ensuring that decarbonisation projects are progressing in a timely manner.

- The Health, Safety and Environment Committee reports to the Board on the effectiveness of the Company's HSEQ programme and ensures that risks, including environmental or carbon-related hazards are fully assessed and appropriately mitigated. In addition, this committee ensures that all personnel, including contractors employed by the Company, are fully aware of their HSE 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 committees all meet regularly as required.

**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 incremental emissions reduction targets of the North Sea Transition Deal when making strategic decisions. Serica uses the risk categories recommended by the TCFD to identify and assess climate-related risk and opportunities: namely 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 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 of emissions-related key performance indicators ("KPIs") and targets that directly affect employee bonus payments, including those of the Senior Management and Executive Teams;

• Formation of a Sustainability Board Committee, to focus on specific ESG topics and issues, including climate-related risk and opportunities;

• Continued development and enhancement of a robust ESG policy and strategy with a corresponding communication structure to internal and external stakeholders;

• A dedicated VP ESG and Business Innovation position to lead strategy development, drive change and support continuous improvement in emissions performance and wider ESG commitments;

• Creation of an Emissions Reduction Group that looks at opportunities to reduce Serica's carbon emissions in line with Industry targets. This group is led by Serica's Energy Transition Engineering Advisor;

• Active membership of the Net Zero Technology Centre, whose aim is 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 a response to the TCFD recommendations;

• Continued development of an ESG strategy ensuring associated commitments and disclosures are aligned with investor and lender requirements;

• Empowering employees to identify and own ESG initiatives within the Serica organisation and the wider community; and

• Integration of internal stakeholder communications to ensure that the requirements of finance and ESG are aligned.

**Scenario Analysis**

The TCFD recommends that business resilience to climate risks should be assessed through scenario analysis. Scenarios begin 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 and carbon prices under different scenarios. Serica has decided to base its analysis on three 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

3. Announced Pledges – all current targets and announced pledges are met by countries with temperature-limiting targets narrowly missed

In 2023, Serica ran quantitative scenario analysis against its business economic models on the whole Serica asset portfolio. Parameters for the economic models were based on those of the International Energy Agency's ("IEA") 2022 Net Zero, Stated Policies, and Announced Pledges scenarios and concentrated on carbon prices and commodity prices. The results of the exercise confirmed that Serica's business models remain resilient under these scenarios. Serica will continue to use scenario analysis to test its resilience under different climate scenarios.

Serica is currently partially aligned with the Strategy C recommendation. Information on future steps can be found in Serica's TCFD Summary Report.

**Climate Risk Management**

- The Senior Management Team is structured and empowered to ensure that the Board has the necessary climate-related information to assess and manage 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. 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.

- When 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, this is the key period of focus for the Company. Therefore, 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: 4 – 9 years

• Long term risks: 10 + years

A summary of Serica's transition and physical risks is presented in the table below.

| Risk Description | Perceived impact timescale | Potential Consequences | Mitigations/Actions |
|---|---|---|---|
| | | **Transition Risk** | |
| Sources of finance including equity markets and debt providers may be harder to access or become more expensive | Short Term | • All lenders reduce funding available to exploration and production companies and this may impact debt terms and/or debt capacity.<br>• Demonstration of the impacts of climate change and associated company action are likely for the basis of access to finance.<br>• Organisations with poor ESG commitments, disclosures and performance can expect to see materially reduced lending appetite over time.<br>• Cost of debt and debt capacity significantly impacted by anti-fossil fuel pressures in the lending community.<br>• Less debt capacity and increased cost of debt may lead to reduced asset and company valuation. | • Serica has put in place a new six-year financing facility with a group of international banks. This facility includes provisions for the incorporation of ESG performance indicators<br><br>• The Company also seeks to retain a range of alternative financing options<br><br>• Potential funding cost increases and loan structures (i.e. sustainability led loans) are considered when planning investments |
| The transition away from fossil fuel-based power generation may restrict the future demand for, or production of, the Company's oil and gas reserves | Medium to Long term | • Reduced demand for goods and services due to shift in consumer preferences<br>• Increased production costs due to changing input prices (e.g. energy, water) and output requirements (e.g. waste treatment)<br>• Abrupt and unexpected shifts in energy costs<br>• Change in revenue mix and sources, resulting in decreased revenues<br>• Re-pricing of assets (e.g. fossil fuel reserves, land valuations, securities valuations)<br>• R&D expenditures in new and alternative technologies<br>• Capital investments in technology development<br>• Costs to adopt/deploy new practices and processes | • The impact of the value of future reserves is lower for later periods of production due to discounting<br><br>• Since the acquisition of Tailwind Energy, the Company's reserves are more evenly split between oil and gas mitigating the risk of demand for one commodity over another<br><br>• The Company closely follows industry related forecasts and trends from numerous sources<br><br>• The Company 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 costs, levies, or taxes | Short term | • Increases the risk associated with longer term capital investments<br>• Increased operating costs (e.g., higher compliance costs, increased insurance premiums)<br>• Write-offs, asset impairment, and early retirement of existing assets due to policy changes<br>• Increased costs and/or reduced demand for products and services resulting from fines and judgments | • Estimates of climate-related charges are included in cost estimates where reasonably identifiable<br><br>• Management prioritises the delivery of ESG objectives aimed at mitigating any additional carbon levies, i.e., by reducing its asset emissions<br><br>• The impact of the Energy Profits Levy and potential changes are taken into account when running corporate economic models, resilience testing and assessing new acquisitions |
| The range of potential acquisitions may be restricted by ESG considerations | Short to Medium Term | • Reduced revenues from lower sales/output<br>• Reduced capital availability | • Management considers the emissions profiles of potential acquisition targets and the mitigating actions that it can implement<br><br>• It prioritises opportunities to deliver low carbon intensity production into the UK market compared to imports<br><br>• The Company reviews investments in countries |

| Risk Description | Perceived impact timescale | Potential Consequences | Mitigations/Actions |
|---|---|---|---|
| | | | outside the UK and their climate-related policies and outlook |
| The industry or Company's reputation could be damaged as the oil and gas industry is perceived negatively by external stakeholders | Short to Medium Term | • Reduced revenue from decreased demand for goods/services<br>• Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions)<br>• Reduced revenue from negative impacts on workforce management/planning (e.g., employee attraction/retention) | • Ensure the Company reports transparently and follows internationally recognised ESG reporting guidelines<br><br>• Regularly engage with stakeholders on its ESG activities and performance |
| **Physical Risk** | | | |
| More extreme weather patterns may threaten or disrupt operations or supply chain | Short to Long Term | • Reduced revenue in the short term due to decreased production capacity (e.g. transport difficulties, supply chain interruptions)<br><br>• Reduced revenue and higher costs in the short term due to negative impacts on workforce (e.g. health, safety, absenteeism)<br><br>• Write-offs and early retirement in the long term of existing assets (e.g. damage to property and assets in "high-risk" locations)<br><br>• Increased operating costs in the long term (e.g. inadequate water supply for hydroelectric plants or to cool nuclear and fossil fuel plants)<br><br>• Increased capital costs in the long term (e.g. damage to facilities)<br><br>• Reduced revenues from lower sales/output<br><br>• Increased insurance premiums and potential for reduced availability of insurance on assets in "high-risk" locations in the long term | • The Company seeks to maintain robust transport and supply chains<br><br>• The impact of extreme climatic conditions such as exceptional waves are incorporated into risk management scenarios<br><br>• The Company operates under a Severe Weather Action Plan<br><br>• Plan contingency into operations such as drilling/diving/seismic to reflect poor weather |

Serica is currently partially aligned with the Risk Management B recommendation. Information of future steps can be found in Serica's TCFD Summary Report.

### Metrics and Targets

Criteria used to assess climate-related risks is aligned to the criteria used in Serica's risk assessment matrix. This matrix looks at the potential frequency of an event or risk occurring and the potential financial impact this may have on the organisation. Once its likelihood and potential financial impact has been determined it is given a risk rating, which is then used by Serica to rank the risks in relation to their severity and importance. Naturally, there is a focus to concentrate efforts on mitigating the most significant risks identified.

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.

Serica is fully aligned to the emission reduction targets as set out in the North Sea Transition Deal, which commits the UK oil and gas industry to reduce absolute basin emissions by 10% by 2025, by 25% by 2027, 50% by 2030, and become Net Zero by 2050 from a 2018 baseline. Serica also supports the World Bank's target of reaching zero routine flaring by 2030.

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.

The environmental targets put in place for the Bruce Hub in 2023 included:

- Limiting total Scope 1 emissions to below 200,000 tonnes of $CO_2$
- Limiting total volumes of flared gas to under 5,000 tonnes

In 2023, Serica achieved both targets, with total Scope 1 emissions reaching 179,447 tonnes of $CO_2$ by the end of the year and total flaring volumes limited to 4,708 tonnes. The main contributors to this were the successful implementation of the temporary power generators installed for the summer maintenance shutdown, which saved approximately 5,500 tonnes of $CO_2$ from being emitted. Further details on Scope 1 and 2 emissions can be found on page 76 of the Annual Report and Accounts.

In 2024, Serica will continue to tie emissions reduction initiatives to its remuneration and corporate bonus scheme and has implemented the following emissions related targets:

- Limiting total Scope 1 carbon intensity to 15.5 $kgCO_2$/boe

This target is intensity based and performance is monitored on a regular basis and is reported across the organisation, including the Board and all staff and contractors. Details on executive remuneration can be found on page ** of the Annual Report and Accounts.

Serica also has a suite of other environmental targets and KPIs used to monitor its performance, these include the average daily flaring volumes, the percentage of waste diverted from disposal, the volume of general waste generated and quantity of oil in produced water that is discharged to sea. Performance against these targets is also monitored on a regularly and performance is reported across the organisation.

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.

Further information upon the Company's HSEQ and ESG policies and delivery can be found within the ESG Report which will be issued along with the 2023 Annual Report.

Serica is currently partially aligned with the Metrics and Targets A recommendation. Information on future steps can be found in Serica's TCFD Summary Report.

**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 KPIs 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 KPIs 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 KPIs whose progress is covered within the ESG Report:

- Annual carbon emissions
- Flare volumes
- Scope 1 carbon intensity

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 HSEQ and ESG policies and delivery can be found within the ESG Report which will be issued along with the 2023 Annual Report.

**Section 172 statement**

The Directors' statement under Section 172 of the Companies Act 2006 is included on pages 72 to 74.

**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
23 April 2024

## Forward Looking Statements

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

**Serica Energy plc**
**Group Income Statement**
For the year ended 31 December 2023

| | Note | **2023 £000** | 2022 £000 |
|---|---|---|---|
| ***Continuing operations*** | | | |
| **Sales revenue** | 4 | 632,638 | 812,423 |
| Cost of sales | 5 | (326,064) | (218,155) |
| **Gross profit** | | 306,574 | 594,268 |
| Hedging income/(expense) | 6 | 4,762 | (24,507) |
| Contract revenue - other | 16 | 23,904 | - |
| Exploration and pre-licence costs | | (2,103) | (185) |
| E&E asset write-offs | 12 | (8,741) | (82,749) |
| Administrative expenses | | (19,637) | (9,225) |
| Transaction costs | 29 | (10,085) | (1,785) |
| Foreign exchange (loss)/gain | | (3,591) | 3,903 |
| Share-based payments | 25 | (3,975) | (3,510) |
| Gain on acquisition | 29 | 34,048 | - |
| **Operating profit before net finance revenue and tax** | | 321,156 | 476,210 |
| Change in fair value of financial liabilities | 19 | (7,584) | 8,407 |
| Finance revenue | 8 | 13,532 | 4,499 |
| Finance costs | 8 | (21,481) | (938) |
| **Profit before taxation** | | 305,623 | 488,178 |
| Taxation charge for the year | 9 | (202,639) | (310,382) |
| **Profit for the year** | | 102,984 | 177,796 |
| Profit for the year attributable to: | | | |
| Equity owners of the Company | | 102,984 | 177,796 |
| **Earnings per ordinary share - EPS** | | | |
| Basic EPS on profit for the year (£) | 10 | 0.29 | 0.65 |
| Diluted EPS on profit for the year (£) | 10 | 0.27 | 0.62 |

**Serica Energy plc**
**Group Statement of Comprehensive Income**
For the year ended 31 December 2023

| | **2023** **£000** | 2022 £000 |
|---|---|---|
| **Profit for the year** | 102,984 | 177,796 |
| **Other comprehensive loss** | | |
| Items that may be subsequently reclassified to income statement: | | |
| Exchange differences on translation | (11,729) | - |
| **Other comprehensive loss for the year** | (11,729) | - |
| **Total comprehensive profit for the year** | 91,255 | 177,796 |
| Total comprehensive profit attributable to: | | |
| Equity owners of the Company | 91,255 | 177,796 |

**Serica Energy plc**
**Registered Number: 5450950**
**Group Balance Sheet**
As at 31 December 2023

| | Note | **2023 £000** | 2022 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Exploration & evaluation assets | 12 | 1,930 | 1,001 |
| Property, plant and equipment | 13 | 711,499 | 265,907 |
| Deferred tax asset | 9 | 84,107 | - |
| | | 797,536 | 266,908 |
| **Current assets** | | | |
| Inventories | 14 | 10,888 | 3,998 |
| Trade and other receivables | 15 | 138,610 | 134,627 |
| Hedging security advances | 16 | - | 24,320 |
| Decommissioning security advances | 17 | 27,537 | - |
| Cash and cash equivalents | 17 | 263,492 | 432,529 |
| | | 440,527 | 595,474 |
| TOTAL ASSETS | | 1,238,063 | 862,382 |
| **Current liabilities** | | | |
| Trade and other payables | 18 | 97,415 | 69,887 |
| Corporate tax payable | | 53,660 | 149,998 |
| Derivative financial liabilities | 16 | 4,371 | 24,914 |
| Contract liabilities | 16 | 28,829 | 987 |
| Financial liabilities | 19 | 3,635 | - |
| Provisions | 20 | 12,935 | - |
| **Non-current liabilities** | | | |
| Financial liabilities | 19 | 65,003 | 29,378 |
| Provisions | 20 | 103,918 | 25,199 |
| Deferred tax liability | 9 | - | 153,295 |
| Interest bearing loans | 21 | 213,035 | - |
| TOTAL LIABILITIES | | 582,801 | 453,658 |
| NET ASSETS | | 655,262 | 408,724 |
| Share capital | 23 | 192,921 | 183,177 |
| Merger reserve | 23 | 230,350 | - |
| Other reserve | 25 | 29,551 | 25,576 |
| Accumulated funds | | 214,169 | 199,971 |
| Currency translation reserve | | (11,729) | - |
| TOTAL EQUITY | | 655,262 | 408,724 |

Approved by the Board on 23 April 2024

Mitch Flegg
Chief Executive Officer

Martin Copeland
Chief Financial Officer

**Serica Energy plc**
**Group Statement of Changes in Equity**
For the year ended 31 December 2023

| | Share capital £000 | Merger reserve £000 | Other reserve £000 | Currency translation reserve £000 | Accumulated funds £000 | Total £000 |
|---|---|---|---|---|---|---|
| At 1 January 2022 | 181,993 | - | 22,066 | - | 68,469 | 272,528 |
| Profit for the year | - | - | - | - | 177,796 | 177,796 |
| Total comprehensive income | - | - | - | - | 177,796 | 177,796 |
| Issue of shares | 1,184 | - | - | - | - | 1,184 |
| Share-based payments | - | - | 3,510 | - | - | 3,510 |
| Dividend paid | - | - | - | - | (46,294) | (46,294) |
| At 31 December 2022 | 183,177 | - | 25,576 | - | 199,971 | 408,724 |
| Profit for the year | - | - | - | - | 102,984 | 102,984 |
| Other comprehensive income | - | - | - | (11,729) | - | (11,729) |
| Total comprehensive income | - | - | - | (11,729) | 102,984 | 91,255 |
| Issue of shares | 9,744 | 230,350 | - | - | - | 240,094 |
| Share-based payments | - | - | 3,975 | - | - | 3,975 |
| Dividend paid | - | - | | - | (88,786) | (88,786) |
| At 31 December 2023 | 192,921 | 230,350 | 29,551 | (11,729) | 214,169 | 655,262 |

**Serica Energy plc**
**Group Cash Flow Statement**
For the year ended 31 December 2023

| | Note | **2023 £000** | 2022 £000 |
|---|---|---|---|
| **Cash inflow from operations** | 24 | 378,369 | 704,858 |
| Taxation paid | | (279,463) | (143,500) |
| Decommissioning spend | | (896) | (1,218) |
| **Net cash inflow from operating activities** | 24 | 98,010 | 560,140 |
| | | | |
| **Investing activities:** | | | |
| Interest received | | 13,532 | 4,499 |
| Purchase of E&E assets | | (9,673) | (80,801) |
| Purchase of property, plant and equipment | | (68,588) | (16,298) |
| Cash outflow from BKR business combination | 19 | - | (93,871) |
| Acquisition of subsidiary, net of cash acquired | 29 | (44,036) | - |
| **Net cash flow from investing activities** | | (108,765) | (186,471) |
| | | | |
| **Financing activities:** | | | |
| Payments of lease liabilities | 26 | (628) | (132) |
| Proceeds from issue of shares | 23 | 801 | 1,184 |
| Repayment of borrowings | 21 | (81,406) | - |
| Proceeds from borrowings | 21 | 34,478 | - |
| Dividends paid | 11 | (88,786) | (46,294) |
| Finance costs paid | | (18,832) | (385) |
| **Net cash flow from financing activities** | | (154,373) | (45,627) |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | (165,128) | 328,042 |
| Effect of exchange rates on cash and cash equivalents | | (3,909) | 1,503 |
| Cash and cash equivalents at 1 January | 24 | 432,529 | 102,984 |
| Cash and cash equivalents at 31 December | 24 | 263,492 | 432,529 |

**Serica Energy plc**

**Notes to the Financial Statements**

## 1. Authorisation of the Financial Statements and Statement of Compliance with UK adopted International Accounting Standards

These are not the statutory accounts of the Group and the Company prepared in accordance with the Companies Act. The Group's financial statements for the year ended 31 December 2023 were authorised for issue by the Board of Directors on 23 April 2024 and the balance sheet was signed on the Board's behalf by Mitch Flegg and Martin Copeland. 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 its subsidiaries (together the 'Group') is to identify, acquire and subsequently exploit oil and gas reserves. A listing of the Group's companies is contained in note 30 to these Group financial statements. 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 as they apply to the financial statements of the Group for the year ended 31 December 2023. The principal accounting policies adopted by the Group are set out in note 2.

## 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 2023.

The Group financial statements have been prepared on a historical cost basis and 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 2025 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 2025, the 'going concern period'.

As at 22 April 2024 the Group held cash and term deposits of £264.7 million including £18.3 million of restricted funds. Following the re-financing completion in January 2024, separate RBL liquidity headroom of US$232 million existed at 31 March 2024 (US$231 million drawn versus US$463 million available). See note 21 for further details of the current RBL facility.

The acquisition of Tailwind in 2023 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.

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.

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 operations of the Group. RBL repayments have been assumed based on the current redetermination and no covenant compliance matters noted.

The base case assumptions for the going concern period included commodity pricing of 70 pence/therm for gas and US$80/bbl for oil for the remainder of 2024 and 75 pence/therm gas and US$75/bbl oil for 1H 2025. 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 a full six-month shut-in of Triton hub production for 2H 2024 and a full six-month shut-in of BKR hub production for 1H 2025. Production remains at base case levels to the end of the going concern period outside of these separate production hub shut-ins. Base case commodity pricing is retained for 2024 but lower commodity pricing of 50 pence/therm gas and US$60/bbl oil are assumed for the 1H 2025 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 any 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 sources of estimation uncertainty**

The preparation of financial statements in conformity with UK-adopted International Accounting Standards requires management to make judgements and estimates that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes could differ from these estimates. The Group has identified the following areas where significant judgement, estimates and assumptions are required, which following the acquisition of Tailwind Energy Investments Ltd in the year now include the acquisition of assets via a business combination and the recognition of deferred tax assets.

***I) Uses of judgement***

Key sources of judgement that may have a significant risk of causing material adjustment to the amounts recognised in the financial statements are as follows: assessing whether impairment triggers exist that might lead to the impairment of the Group assets (including oil and gas producing & development assets and Exploration and Evaluation "E&E" assets): assessing factors involved in the fair value assessments required upon a business combination; and taxation including recognition of deferred tax assets.

Details on these sources of judgements are given below.

Assessment of the impairment indicators of intangible and tangible assets

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

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 2023 in accordance with the stated policy and no impairment triggers were noted.

Acquisition through business combination

The Group made a significant acquisition in the year – see note 29 for further details of the final purchase price allocation, including the assets and liabilities acquired, the gain on purchase arising on acquisition and details of the consideration paid. The acquisition was accounted for as a business combination under IFRS 3. The assets and liabilities identified in the purchase price allocation include oil & gas assets, decommissioning liabilities, deferred tax assets and liabilities, contract liabilities, derivatives and working capital.

In determining the fair value on acquisition of a pre-existing oil revenue contract a judgement was made to value the contract at the differential between the contract pricing and market price and to unwind the liability through 'contract revenue – other' in the income statement upon satisfaction of the performance obligations of the contract.

Taxation including the recognition of deferred tax assets

The Group's operations are subject to a number of specific tax rules which apply to exploration, development and production companies such as the Energy Profits Levy, ring-fenced Corporation Tax at 30%, the Supplementary Charge of 10% and the application of investment allowances. As a result of these factors, the tax provision process necessarily involves the use of a number of judgements around expenditure deductible under different ring-fenced tax rules. Further recognition of deferred tax assets on the acquisition date of

Tailwind involves judgement that it is appropriate to anticipate tax losses to be available in relation to planned restructuring.

***II) Sources of estimation uncertainty***

### *Key sources of estimation uncertainty*

The key sources of estimation uncertainty that may have a significant risk of causing material adjustment to the amounts recognised in the financial statements are: the assessment of commercial reserves and production profiles; and decommissioning provisions.

Details on these key sources of estimation uncertainty are given below.

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, decommissioning provisions, whether deferred tax assets are recoverable and assessing whether any impairment charge is required. Estimates of oil and gas reserves require critical judgement. The Group uses proven and probable ("2P") reserves (see page 16) as the basis for calculations of depletion and expected future cash flows from underlying assets because this represents the reserves management intends to develop. 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 2023 of £12.3 million (2022: £8.5 million).

Decommissioning provisions

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 estimates and assumptions, actual results could differ from these estimates. Expected timing of expenditure can also change, for example in response to changes in laws and regulations or their interpretation, and/or due to changes in commodity prices. The payment dates are uncertain and depend on the production lives of the respective fields. For further details including sensitivities of the calculation to changes in input variables (see note 20).

### *Non-key sources of estimation uncertainty*

Non-key sources of estimation uncertainty include determining the fair value of contingent consideration, royalty liabilities, recoverability of deferred tax and fair value of assets and liabilities acquired through the Tailwind acquisition.

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. 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 2023, assumptions underlying the calculation were updated from 2022. 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 19).

Royalty liabilities
The Group determined the fair value of a royalty liability assumed upon the Tailwind acquisition in 2023 at the time of the acquisition and subsequently as at 31 December 2023. In calculating the fair value of the royalty payable, assumptions included commodity prices, future production and discount rates. For further details including sensitivities of the calculation to changes in input variables (see note 19).

Recoverability of deferred tax assets
Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable profits in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws – see use of judgements: Taxation. There is no critical estimation uncertainty at the end of the reporting period.

Fair value of assets and liabilities acquired through the Tailwind acquisition
Estimates are required to be made regarding the calculation of the fair value of the oil and gas assets acquired, including estimating the future cash flows expected to arise from the CGUs in the acquired business using discounted cash flow models. Key assumptions include: commodity prices, discount rates and oil and gas reserves estimates. In addition, the Group has considered the value that a market participant would prescribe to prospective resources in determining the fair value of the oil & gas assets acquired. In determining the value of the deferred tax asset recognised on acquisition, the Group has also made assumptions in respect of the amount of tax losses brought forward which will be available to offset against future taxable profits of the Group. There is no critical estimation uncertainty related to this estimate at the end of the reporting period.

**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.

The results and financial position of all of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of each transaction);
- The exchange differences arising on translation for consolidation are recognised in other comprehensive income; and
- Any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the acquired entity and are translated at the spot rate of exchange at the reporting date.

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**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The Group's financial statements are presented in £ sterling, the currency which the Group has elected to use as its presentational currency.

In the financial statements of Serica Energy plc and its individual subsidiaries, 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**

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.

Goodwill/gain on acquisition

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 on acquisition 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**

Oil and gas operations are usually conducted by the Group as co-licensees in unincorporated joint operations with other companies. Most of the Group's activities are conducted through joint operations, 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 recognises its share of assets, liabilities, income and expenses of the joint operation in the consolidated financial statements on a line-by-line basis.

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

**Exploration and Evaluation Assets**

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

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

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

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

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

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

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

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

Asset Purchases and Disposals

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

Farm-ins

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

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

Capitalisation

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

Depletion

Oil and gas properties are not depleted until production commences. Costs relating to each single field cost centre are depleted on a unit of production method based on the commercial proved and probable reserves for that cost centre. The depletion calculation takes account of the estimated future costs of development of management's assessment of proved and probable reserves, reflecting risks applicable to the specific assets. Changes in reserve quantities and cost estimates are recognised prospectively from the last annual reporting date. Proved and probable reserves estimates obtained from an independent reserves specialist have been used as the basis for 2022 and 2023 calculations.

Impairment

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

For oil and gas properties when there are such indications, an impairment test is carried out on the cash generating unit. Each cash generating unit is identified in accordance with IAS 36. Serica's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development or production areas. If necessary, impairment is charged through the income statement if the carrying amount 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. If a change in the decommissioning liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss. 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.

**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 of deposit.

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 loans and borrowings, trade and other payables, BKR consideration liabilities, royalty liabilities, deferred shares in relation to the Tailwind acquisition and derivative liabilities. 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 16.

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.

**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.

**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 30 days upon collection or delivery.

**Finance Revenue**

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

**Finance Costs**

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

**Share-Based Payment Transactions**

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

Equity-settled transactions

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

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

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

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

**Income Taxes**

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

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

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

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

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

**Earnings Per Share**

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

**Leases**

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

The lease liability is subsequently recorded at amortised cost, using the effective interest rate method. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Group changes its assessment of whether

it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

The Group does not currently act as a lessor.

**New and amended standards and interpretations**

The Group has adopted and applied for the first time, certain new standards, amended standards or interpretations, which are effective for annual periods beginning on or after 1 January 2023. These include the following:

- Insurance contracts (IFRS 17)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred tax related to Assets and Liabilities arising from a Single Transaction (amendments to IAS 12)
- International Tax reform – Pillar Two Model Rules (Amendments to IAS 12)

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 above, the accounting policies adopted are consistent with those of the previous financial year.

There are no new or amended standards or interpretations adopted from 1 January 2023 onwards, that have a significant 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. These include the following:

- IFRS 10 and IAS 28 (amendments) - Sale or Contribution of Assets between an investor and its Associate or Joint Venture
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
- Amendments to IAS 1 – Non-current Liabilities with Covenants
- Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements
- Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback

The Group intends to adopt them when they become effective but these new or amended standards not yet adopted are not expected to have a material impact on the financial statements.

## 3. Segment Information

For the purposes of segmental reporting, the Group currently operates a single class of business being oil and gas exploration, development and production and related activities in a single geographical area, being presently the UK North Sea.

## 4. Sales Revenue

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Gas sales | 345,704 | 652,680 |
| Gas supply contract revenue | 987 | 37,505 |
| Total gas sales | 346,691 | 690,185 |
| Oil sales | 265,497 | 88,048 |
| NGL sales | 20,450 | 34,190 |
| Total revenue | 632,638 | 812,423 |

Gas sales revenue in 2023 arose from three key customers (2022: one). 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 16.

Oil sales revenue in 2023 was from three key customers (2022: one), and NGL sales in 2023 were made to six customers (2022: six).

The revenue from three customers individually constitutes more than 10% of total revenue amounting to £608.2 million.

## 5. Cost of Sales

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Operating costs | 218,688 | 120,998 |
| Lifting costs | 7,066 | - |
| Change in decommissioning estimates expensed (note 20) | 368 | - |
| Depletion (note 13) | 109,198 | 76,887 |
| Movement in liquids overlift/underlift | (9,256) | 20,270 |
| | 326,064 | 218,155 |

## 6. Operating Profit

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Net hedging income/(expense) | | |
| Unrealised hedging gains (see note 16) | 20,397 | 20,877 |
| Realised hedging losses (see note 16) | (15,635) | (45,384) |
| | 4,762 | (24,507) |

Depreciation and depletion expense

Depreciation of right of use assets totalled £795,000 (2022: £172,000) of which £622,000 (2022: £nil) was allocated to cost of sales and £173,000 (2022: £172,000) allocated to administrative expenses.

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

Auditor's Remuneration

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Audit of the Group accounts | 724 | 338 |
| Audit of the Company's accounts | 32 | 30 |
| Audit of accounts of Company's subsidiaries | 129 | 36 |
| Total audit fees | 885 | 404 |

No fees were paid to Ernst & Young LLP and its associates for non-audit services in 2022 or 2023.

## 7. Staff Costs and Directors' Emoluments

a) Staff Costs - Group

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Wages and salaries | 25,901 | 21,755 |
| Social security costs | 6,488 | 3,727 |
| Other pension costs | 2,669 | 2,199 |
| Share-based long-term incentives | 3,975 | 3,510 |
| | 39,033 | 31,191 |

The average number of persons employed by the Group during the year was 202 (2022: 175), with 11 in management functions (2022: 9), 172 in technical functions (2022: 155) and 19 (2022: 11) in finance and administrative functions.

| Staff costs for key management personnel: | | |
|---|---|---|
| Short-term employee benefits | 2,701 | 2,616 |
| Post-employment benefits | 122 | 111 |
| Share-based payments (note 25) | 2,341 | 2,036 |
| | 5,164 | 4,763 |

b) Directors' Emoluments

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

| | 2023 Salary and fees | 2023 Bonus | 2023 Pension | 2023 Benefits in kind | **2023 Total** | 2022 Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** | £000 |
| A Craven Walker (2) | 245 | - | - | - | 245 | 490 |
| M Flegg (1) | 575 | 371 | 76 | 1 | 1,023 | 1,015 |
| A Bell (1) | 345 | 247 | 46 | 1 | 639 | 618 |
| D Latin | 163 | - | - | - | 163 | 57 |
| I Vann (3) | - | - | - | - | - | 20 |
| T Garlick (4) | 35 | - | - | - | 35 | 60 |
| M Webb | 68 | - | - | - | 68 | 60 |
| K Coppinger | 68 | - | - | - | 68 | 60 |
| R Rose (5) | - | - | - | - | - | 24 |
| J Schmitt (6) | 65 | - | - | - | 65 | 25 |
| M Soeting (7) | 61 | - | - | - | 61 | - |
| R Lawson (8) | 46 | | | | 46 | - |
| G Vermersch (9) | 46 | | | | 46 | - |
| K Van Hecke (10) | 32 | - | - | - | 32 | - |
| S Lloyd Rees (11) | 28 | - | - | - | 28 | - |
| | 1,777 | 618 | 122 | 2 | 2,519 | 2,429 |

Note (1) Cash in lieu of pension.

Note (2) Antony Craven Walker retired on 30 June 2023

Note (3) Ian Vann retired on 30 April 2022

Note (4) Trevor Garlick retired on 17 July 2023

Note (5) Richard Rose resigned on 21 June 2022

Note (6) Jérôme Schmitt was appointed on 1 July 2022
Note (7) Michiel Soeting was appointed on 1 February 2023
Note (8) Robert Lawson was appointed on 23 March 2023
Note (9) Guillaume Vermersch was appointed on 23 March 2023
Note (10) Kaat Van Hecke was appointed on 17 July 2023
Note (11) Sian Lloyd Rees was appointed on 17 July 2023

| | **2023** | 2022 |
|---|---|---|
| Number of Directors securing benefits under defined contribution schemes during the year | 2 | 2 |
| Number of Directors who exercised share options | 3 | - |

| | **£000** | £000 |
|---|---|---|
| Aggregate gains made by Directors on the exercise of options | 1,544 | - |

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 28.

## 8. Finance Revenue/Costs

| | **2023** **£000** | 2022 £000 |
|---|---|---|
| Bank interest receivable | 13,532 | 4,499 |
| Total finance revenue | 13,532 | 4,499 |

| | **2023** **£000** | 2022 £000 |
|---|---|---|
| Loan interest payable | 13,757 | - |
| Loan commitment fees | 4,302 | - |
| Other charges and interest payable | 509 | 385 |
| Unwinding of discount on provisions (note 20) | 2,913 | 553 |
| Total finance costs | 21,481 | 938 |

## 9. Taxation

| | **2023** **£000** | 2022 £000 |
|---|---|---|
| a) Tax charged/(credited) in the income statement | | |
| Charge for the year | 181,442 | 276,674 |
| Adjustment in respect of prior years | 1,889 | 1,021 |
| Total current income tax charge | 183,331 | 277,695 |
| Deferred tax | | |
| Origination and reversal of temporary differences in the current year | 19,308 | 32,687 |
| Adjustment in respect of prior years | - | - |
| Total deferred tax charge | 19,308 | 32,687 |
| Tax charge in the income statement | 202,639 | 310,382 |

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:

| | **2023** **£000** | 2022 £000 |
|---|---|---|
| Accounting profit before taxation | 305,623 | 488,178 |
| Statutory rate of corporation tax in the UK of 40% (2022: 40%) | 122,249 | 195,271 |
| Permanent differences | 3,175 | (7,243) |
| Movement in unrecognised deferred tax assets | 2,634 | (500) |
| Investment Allowance | (4,316) | (1,927) |
| EPL – Rate differential | (9,455) | 59,045 |
| EPL - Income taxed at different rates | 102,417 | 82,473 |
| EPL – Investment allowance | (5,321) | (18,136) |
| Income tax at different rates | 2,986 | 378 |
| Adjustment in respect of prior years | 1,889 | 1,021 |
| Non-taxable gain on acquisition | (13,619) | - |
| Tax charge reported in the income statement | 202,639 | 310,382 |

c) Recognised and unrecognised tax losses

The Group's Balance Sheet has a deferred tax asset amount of £438.1 million as at the 31 December 2023 (2022: £12.9 million) arising from ring-fence losses, decommissioning liabilities and other temporary differences. These deferred tax assets are expected to be recovered through utilisation against deferred tax liabilities, primarily related to temporary differences on fixed assets (£354.0 million) and through future taxable profits. The increase in net assets to £84.1 million as at 31 December 2023 (2022: £153.3 million net deferred tax liability) in the year is primarily due to the Tailwind acquisition (note 29).

The Group's deferred tax assets at 31 December 2023 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 2023 with respect to ring fence losses and allowances.

The Group has recognised deferred tax assets in full on its UK ring-fence losses but has unrecognised UK mainstream corporation tax losses and temporary differences of £118.7 million (2022: £60.2 million) for which no deferred tax asset has been recognised at the Balance Sheet date. These tax losses and temporary differences are unrecognised because they streamed within entities for which no profits are expected. The increase in balance in the year is primarily due to the Tailwind acquisition.

| Unrecognised deferred tax assets | **2023**<br>**£000** | 2022<br>£000 |
|---|---|---|
| Tax losses | 99,339 | 25,427 |
| Other temporary differences | 19,349 | 34,776 |
| Total | 118,688 | 60,203 |

The above unrecognised amounts have no expiry.

d) Deferred tax

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

| | **2023**<br>**£000** | 2022<br>£000 |
|---|---|---|
| Deferred tax liability: | | |
| Temporary differences on capital expenditure | (353,994) | (166,219) |
| Deferred tax liability | (353,994) | (166,219) |
| Deferred tax asset: | | |
| Tax losses | 331,277 | - |
| Decommissioning liability | 46,611 | 10,080 |
| Investment allowances | 33,056 | - |
| Contract liability | 21,622 | - |
| Other temporary differences | 5,535 | 2,844 |
| Deferred tax asset | 438,101 | 12,924 |
| Net deferred tax asset/(liability) | 84,107 | (153,295) |

Reconciliation of net deferred tax assets/(liabilities)

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| At 1 January | (153,295) | (120,608) |
| Acquisitions (note 29) | 264,914 | - |
| Tax charge during the year recognised in profit | (19,308) | (32,687) |
| Currency translation adjustment | (8,204) | - |
| At 31 December | 84,107 | (153,295) |

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

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Deferred tax in the income statement: | | |
| Temporary differences on capital expenditure | (18,493) | 34,373 |
| Tax losses | 26,493 | - |
| Other temporary differences | 11,308 | (1,686) |
| Deferred income tax charge | 19,308 | 32,687 |

e) Unrecognised deferred tax liability

In 2023 and 2022 there are no material temporary differences associated with investments in the Group's subsidiaries for which a deferred tax liability has not been recognised.

f) *Changes to UK corporation tax legislation*

*Changes to UK corporation tax legislation*
The main rate of UK corporation tax for non-ring fence profits increased from 19 per cent to 25 per cent from 1 April 2023. This change has not had a material impact on the Group as the UK profits are primarily subject to the UK ring fence tax rate. 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.

The Energy Profits Levy ('EPL') on the profits earned from the production of oil and gas in the UK was introduced in the previous period. From 1 January 2023, the EPL is charged at the rate of 35 per cent on taxable profits in addition to ring fence corporation tax of 30 per cent and the Supplementary Charge of 10 per cent. The EPL is a temporary measure which at 31 December 2023 was to cease to apply on 31 March 2028. In the 2023 financial statements, any temporary differences subject to the EPL expected to reverse in the period to 31 March 2028 have been measured to the higher rate. Following the 2024 Spring budget it was announced that it will cease to apply on 31 March 2029, the impact on the current year financial statements would be an increase in the deferred tax charge and deferred tax for EPL by £20.2 million.

In the Autumn Statement on 22 November 2023, the UK government confirmed it will bring in legislation for the Energy Security Investment Mechanism ('ESIM') which would end the imposition of EPL earlier than 31 March 2028 (now 2029) where certain conditions

are met. Under the proposed ESIM, which will be formally implemented upon royal assent of the Spring Budget 2024 finance bill, if both average oil and gas prices fall to, or below, US$71.40 per barrel for oil and 54p per therm for gas, for two consecutive quarters, then the EPL will be repealed and the headline tax rate on UK oil and gas profits will return to 40 per cent. The change as currently proposed is not expected to have a material impact for the Group.

The UK has introduced legislation implementing the Organisation for Economic Co-operation and Development's ("OECD") proposals for global minimum corporation tax rate (Pillar Two) which is effective for periods beginning on or after 31 December 2023. The only jurisdiction in which the Group operates is the UK and the Group does not expect an exposure to Pillar Two income taxes.

## 10. 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 25) and deferred consideration for the Tailwind acquisition (see note 29) into ordinary shares.

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

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Net profit from continuing operations | 102,984 | 177,796 |
| Net profit attributable to equity holders of the parent | 102,984 | 177,796 |

| | **2023** | 2022 |
|---|---|---|
| | **'000** | '000 |
| Basic weighted average number of shares | 360,643 | 271,678 |
| Dilutive potential of ordinary shares granted under share-based payment plans | 12,054 | 16,757 |
| Dilutive potential of ordinary shares under deferred consideration for acquisition | 1,849 | - |
| Diluted weighted average number of shares | 374,546 | 288,435 |

| | **2023** | 2022 |
|---|---|---|
| | **£** | £ |
| Basic EPS on profit for the year (£) | 0.29 | 0.65 |
| Diluted EPS on profit for the year (£) | 0.27 | 0.62 |

## 11. Dividends proposed

Proposed dividends on ordinary shares

A final cash dividend for 2023 of 14.0 pence per share (2022: 14.0 pence per share) is proposed which would generate a payment of approximately £55.1 million (2022: £53.4 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 2023

A final cash dividend for 2022 of 14.0 pence per share was proposed in April 2023 and approved at the annual general meeting on 29 June 2023 and £53.4 million was paid in July 2023.

An interim cash dividend for 2023 of 9.0 pence per share was announced in September 2023 and £35.4 million was paid in November 2023.

As disclosed in the 2022 Annual Report, following the prior 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 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. To rectify these breaches, a resolution was passed at the Annual General Meeting 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 constituted a related party transaction under IAS 24. The overall effect of the resolution was 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 in 2022 have not been restated as the financial resources had left the Company and the intention of the resolution was to remove any right for the Company to pursue shareholders or directors for repayments.

**12. Exploration and Evaluation Assets**

| | **Total £000** |
|---|---|
| Cost: | |
| 1 January 2022 | 2,949 |
| Additions | 80,801 |
| Write-offs | (82,749) |
| 31 December 2022 | 1,001 |
| Additions | 9,673 |
| Write-offs | (8,741) |
| Currency translation adjustment | (3) |
| 31 December 2023 | 1,930 |
| Net book amount: | |
| 31 December 2023 | 1,930 |
| 31 December 2022 | 1,001 |

## 13. Property, Plant and Equipment

| | Oil and gas properties | Equipment, fixtures and fittings | Right-of-use assets | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Cost: | | | | |
| 1 January 2022 | 466,554 | 212 | 516 | 467,282 |
| Additions | 15,953 | - | 345 | 16,298 |
| Decom asset revisions (note 20) | (2,231) | - | - | (2,231) |
| 31 December 2022 | 480,276 | 212 | 861 | 481,349 |
| Acquisitions (note 29) | 482,881 | - | 3,450 | 486,331 |
| Additions | 68,588 | - | - | 68,588 |
| Decom asset revisions (note 20) | 16,012 | - | - | 16,012 |
| Currency translation adjustment | (16,777) | - | (115) | (16,892) |
| 31 December 2023 | 1,030,980 | 212 | 4,196 | 1,035,388 |
| Depreciation and depletion: | | | | |
| 1 January 2022 | 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 |
| Charge for the year (note 5) | 108,576 | - | 622 | 109,198 |
| Charge for the year - other | - | - | 173 | 173 |
| Currency translation adjustment | (915) | - | (9) | (924) |
| 31 December 2023 | 322,246 | 212 | 1,431 | 323,889 |
| Net book amount: | | | | |
| 31 December 2023 | 708,734 | - | 2,765 | 711,499 |
| 31 December 2022 | 265,691 | - | 216 | 265,907 |

**Depreciation and depletion**
Depletion charges on oil and gas properties are classified within 'cost of sales'. £622,000 and £173,000 of right of use asset depreciation has been charged to cost of sales and administrative expenses respectively.

## 14. Inventories

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Materials and spare parts | 4,981 | 3,998 |
| Hydrocarbons | 5,907 | - |
| | 10,888 | 3,998 |

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 (2022: £3.1 million).

## 15. Trade and Other receivables

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Due within one year: | | |
| Trade receivables | 83,409 | 100,445 |
| Amounts recoverable from JV partners | 1,720 | 2,567 |
| Other receivables | 20,144 | 9,192 |
| Prepayments | 10,793 | 18,306 |
| VAT recoverable | 2,525 | 4,117 |
| Liquids underlift | 20,019 | - |
| | 138,610 | 134,627 |

Trade receivables at 31 December 2023 arose from seven (2022: six) 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 other significant concentrations of credit risk within the Group.

## 16. Derivative financial liabilities

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Financial liabilities | | |
| Derivative financial instruments | 4,371 | 24,914 |
| | 4,371 | 24,914 |

*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 19. A table summarising the Group's liabilities measured at fair value is included in note 22.

*Derivative financial instruments*
The Group enters into derivative financial instruments with various counterparties. Commodity and foreign currency derivative contracts are designated as at fair value through profit and loss (FVTPL), and gains and losses on these contracts are recognised in the income statement. Derivative financial instruments held at 31 December 2023 solely comprised UKA ETS swaps and at 31 December 2022 solely comprised gas swaps. These were valued by counterparties, with the valuations reviewed internally and corroborated with readily available market data of forward pricing (level 2). Details of the Group's derivative financial instruments held as at 31 December 2023 are provided in note 22. The mark-to-market of the Group's open contracts as at 31 December 2023 was a liability of £4.4 million (2022: £24.9 million).

The following gains and losses were recognised in the income statement:

| Commodity contracts designated as FVTPL | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Mark-to-market unrealised gains on gas swaps | 24,592 | 20,877 |
| Other unrealised losses | (4,195) | - |
| Unrealised hedging income | 20,397 | 20,877 |
| Gas swaps matured during the year | (12,118) | (45,384) |
| Other contracts matured during the year | (3,517) | - |
| Realised hedging expense | (15,635) | (45,384) |

Unrealised hedging gains in 2023 comprise gains on gas swaps partially offset by unrealised losses on the UKA ETS swap instruments held (2022: gains on gas swaps). Unrealised hedging gains on gas and other swaps comprise unrealised charges on the movement during the year in the calculated fair value liability of outstanding gas price or

other derivative contracts measured at the respective Balance Sheet dates.

Realised hedging losses measured at fair value through profit or loss for 2023 comprise losses realised on gas swaps and UKA ETS swaps. For 2022 losses were solely realised on gas swaps.

**Hedging security advances**
Hedging security advances of £24.3 million at 31 December 2022 represented cash security lodged with commodity hedging counterparties which reflected the gas prices at the end of 2022. This was returned to Serica when forward gas prices fell or when monthly contracts were settled.

**Contract liabilities**

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Contract liabilities | 28,829 | - |
| Gas contract liabilities | - | 987 |
| | 28,829 | 987 |

On acquisition of Tailwind Energy Investments Ltd (see note 29) a pre-existing oil revenue contract was fair valued, resulting in contract liabilities of £54.2 million being recognised. The contract liabilities represent the differential in contract pricing and market price and will be realised as performance obligations are considered met in the underlying revenue contract. To the extent the contract liability represents the fair value differential between contract price and market price, it will be unwound through 'contract revenue – other' upon satisfaction of the performance obligation. £23.9 million has been released to the Income Statement in 2023 and £1.5 million of currency translation adjustment recognised through other comprehensive income.

The Group's gas contract liabilities which arose in 2021 upon the restructuring of certain hedging arrangements were fully released to the income statement in 2023 when the relevant volumes were delivered at the fixed-price forward sales prices.

**17. Cash and cash equivalents**

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Cash at bank and in hand | 182,167 | 146,986 |
| Short-term deposits | 81,325 | 285,543 |
| | 263,492 | 432,529 |

As at 31 December 2023, the cash balance of £263.5 million (2022: £432.5 million) contained an amount of £18.3 million held in a separate bank account for the purpose of providing security against letters of credit issued in respect of certain decommissioning liabilities (2022: £18.1 million). The use of cash is restricted by virtue of contractual restrictions with a 3rd party.

***Decommissioning Security Agreement ('DSA') cash advances***

DSA cash advances of £27.5 million at 31 December 2023 (31 December 2022: £nil) represented cash security temporarily lodged in respect of decommissioning obligations. These are not included in the cash and cash equivalents balance of £263.5 million above but were released to Serica in 2024 when security was provided under the new financing facility.

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 | **2023 £000** | 2022 £000 |
|---|---|---|---|
| Barclays Bank plc | A-1 | 29,125 | 104,586 |
| Lloyds Bank plc | A-1 | 128,394 | 184,548 |
| DNB Bank ASA | P-1 | 65,374 | 103,272 |
| Investec Bank plc | P-1 | 40,544 | 40,071 |

## 18. Trade and Other Payables

| | **2023 £000** | 2022 £000 |
|---|---|---|
| Current: | | |
| Trade payables | 17,049 | 15,832 |
| Other payables | 9,256 | 7,972 |
| Accrued expenses | 59,224 | 32,108 |
| Liquids overlift | 11,886 | 13,975 |
| | 97,415 | 69,887 |

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 to 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.

## 19. Financial liabilities

| | BKR consideration £000 | Royalty liability £000 | Other consideration £000 | Total £000 |
|---|---|---|---|---|
| At 31 December 2022 | 29,378 | - | - | 29,378 |
| Acquisitions (note 29) | - | 34,869 | 6,273 | 41,142 |
| Change in fair value liability | 5,910 | 630 | 1,044 | 7,584 |
| Payments and settlements | | - | (3,682) | (3,682) |
| Transfer to accruals | - | (4,649) | - | (4,649) |
| Currency translation adjustment | - | (1,135) | - | (1,135) |
| At 31 December 2023 | 35,288 | 29,715 | 3,635 | 68,638 |
| Classified as: | | | | |
| Current | - | - | 3,635 | 3,635 |
| Non-current | 35,288 | 29,715 | - | 65,003 |
| | 35,288 | 29,715 | 3,635 | 68,638 |

***BKR consideration***

On 30 November 2018 Serica completed the four BKR acquisitions. During 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 and 2023:

- 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 estimates of future decommissioning expenditure, taxation, future operating and development costs, production volumes, oil and gas sales prices and discount rates. The underlying assumptions have been updated from 2022. Estimated contingent consideration payments have been calculated at a discount rate of 10% (2022: 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, production profiles, estimated decommissioning costs and future commodity prices.

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 £3.9 million, and an increase from 10% to 11% would result in a decrease in the fair value of the contingent consideration by £3.4 million.

**Royalty liability**
Royalty represents amounts payable under a pre-existing Tailwind sale and purchase agreement subject to future production volumes and commodity prices over the life of certain assets in the Triton Cluster.

The fair value of the royalty liability 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 involve a range of assumptions related to oil prices, production volumes and discount rates. Estimated payments have been calculated at a discount rate of 8.5%.

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, production profiles, estimated decommissioning costs and future commodity prices.

A sensitivity analysis to the oil price assumption used shows a decrease in the oil price assumed by US$5/bbl would result in a decrease in the fair value of the royalty liability by £5.9 million, and an increase by US$5/bbl would result in an increase in the fair value of the royalty liability by £5.9 million.

**Other consideration**
Other consideration reflects the remaining deferred consideration payable under the Tailwind acquisition. This was settled in March 2024 (see note 29).

## 20. Provisions

| | Decommissioning provision £000 | Other provision £000 | Total £000 |
|---|---|---|---|
| At 1 January 2022 | 28,095 | - | 28,095 |
| Additions | - | - | - |
| Revisions during the year (note 13) | (2,231) | - | (2,231) |
| Unwinding of discount (note 8) | 553 | - | 553 |
| Payments | (1,218) | - | (1,218) |
| At 31 December 2022 | 25,199 | - | 25,199 |
| Acquisitions (note 29) | 75,499 | 400 | 75,899 |
| Change in estimate (note 13) | 16,012 | - | 16,012 |
| Change in estimate expensed (note 5) | 368 | - | 368 |
| Unwinding of discount (note 8) | 2,913 | - | 2,913 |
| Payments | (896) | (65) | (961) |
| Currency translation adjustment | (2,565) | (12) | (2,577) |
| At 31 December 2023 | 116,530 | 323 | 116,853 |
| Classified as: | | | |
| Current | 12,871 | 64 | 12,935 |
| Non-current | 103,659 | 259 | 103,918 |
| | 116,530 | 323 | 116,853 |

**Decommissioning provision**
The decommissioning provision represents the present value of decommissioning costs relating to oil and gas interests in the UK which are expected to be incurred up to 2036.

*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 3.75% (2022: 3.25%) and the unwinding of the discount is classified as a finance cost (see note 8).

*Triton area*
The Triton area decommissioning provision is based on Serica group's obligations which are in excess of certain agreed decommissioning liability caps with the previous owners of Tailwind's equity interests in Triton. The Group's provision represents the present value of

decommissioning costs which are expected to be incurred up to 2036 and assumes no further development of the Group's assets. These provisions have been created based on the Group's internal estimates and, where available, operator estimates and third-party reports. These estimates are reviewed regularly to take into account any material changes to the assumptions. The liability is discounted at a rate of 3.75% and the unwinding of the discount is classified as a finance cost (see note 8).

*Orlando, Arthur and Columbus fields*
The Group makes full provision for the decommissioning liabilities for these fields on its respective equity interests. The Group's provision represents the present value of decommissioning costs which are expected to be incurred between 2024 and up to 2030 and assumes no further development of the Group's assets. The liability is discounted at a rate of 3.75% (2022: 3.25%) and the unwinding of the discount is classified as a finance cost (see note 8).

*Erskine field*
No provision for decommissioning liabilities for the Erskine field is recorded as at 31 December 2022 or 2023 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 and actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

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.£31.5 million (2022: 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.

## 21. Interest bearing loans and borrowings

The Group's loan is carried at amortised cost as follows:

| | **2023 £'000** | 2022 £'000 |
|---|---|---|
| Reserve based lending – at beginning of year | - | - |
| | | |
| Acquisitions (note 29) | 264,835 | - |
| Repayments of borrowings | (81,406) | - |
| Proceeds from borrowings | 34,478 | - |
| Expense of loan commitment fees | 3,331 | - |
| Currency translation adjustment | (8,203) | - |
| Reserve based lending – at end of year | 213,035 | - |
| Loan commitment fees | - | - |
| Reserve based lending – at end of year | 213,035 | - |
| | | |
| Due within one year | - | - |
| Due after more than one year | 213,035 | - |
| | 213,035 | - |

Reserve Based Lending facility arrangements existing at 31 December 2023

Following completion of the acquisition of Tailwind Energy Investments Ltd on 23 March 2023, the Serica Group assumed the reserve-based lending and junior facility arrangements linked to the legacy Tailwind sub-group. This had 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. The facility had a maturity date of 30 June 2027 and at the last RBL redetermination in June 2023, the facility available for drawdown was amended to US$377 million. Interest accrued at LIBOR/SOFR plus a margin of between 2.5% to 3.1% depending on the maturity of the facility, with the primary exposure after 30 June 2023 being 1 month term SOFR.

At the acquisition date of 23 March, US$330 million under the facility was drawn. During 2023, US$58.8 million of repayments were made and the facility was US$271.2 million drawn (£213.0 million) at 31 December 2023. All previously unamortised facility fee costs were expensed in 2023 following the announcement of the Group's new RBL facility noted below and the balance of the loan in the 31 December 2023 Balance Sheet therefore solely represents drawings of £213.0 million.

On 24 September 2019, 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 was a committed facility but there were no drawdowns on this facility as at the completion date of 23 March 2023 or any date thereafter until its cessation in January 2024 upon the signing of the new RBL.

New Reserve Based Lending facility arrangements effective January 2024

In December 2023 Serica announced the signing of a new US$525 million secured RBL facility. Following the satisfaction of conditions precedent, this completed in January 2024 and refinanced the Group's previous financing arrangements.

The new RBL facility is a revolving credit facility available in multiple currencies, it provides significantly increased liquidity to support future acquisitions and investments and has established new relationships with a syndicate of leading international banks. The new RBL

has a maturity date of 31 December 2029 with amortisation commencing on 31 December 2026. The interest rate for loan drawings is SOFR plus a margin of 3.90% per annum and the Borrowing Base Assets comprise all of Serica's interests in producing fields except Serica's largest single producing field the Rhum field, and the available amount under the facility is subject to semi-annual redeterminations. The new facility also includes a separate US$100 million sub limit which can be utilised to issue Letters of Credit without the need for cash security.

The facility agreement also has an uncommitted accordion feature which provides an option for an additional financing of up to US$525 million, amounting to facilities of up to US$1,050 million. The accordion facility can be exercised within thirty-six months of the facility signing date, subject to certain conditions.

## 22. 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 2024/25 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 2023**

| | **Within 1 year** | **1-2 years** | **2-5 years** | **Total** |
|---|---|---|---|---|
| Fixed rate | **£000** | **£000** | **£000** | **£000** |
| Short-term deposits | 81,325 | - | - | 81,325 |
| | | | | 81,325 |

| | **Within 1 year** | **1-2 years** | **2-5 years** | **Total** |
|---|---|---|---|---|
| Floating rate | **£000** | **£000** | **£000** | **£000** |
| Cash | 182,167 | - | - | 182,167 |
| Loans and borrowings | - | - | (213,035) | (213,035) |
| | | | | (30,868) |

**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 |

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 2023 £000** | Effect on profit before tax 2022 £000 |
|---|---|---|
| +0.75% | 1,008 | 1,618 |
| -0.75% | (1,008) | (1,618) |

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.

Credit risk

The Group'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** | |
|---|---|---|
| | **2023** | 2022 |
| | **£000** | £000 |
| US Dollar | 115,427 | 44,535 |
| Norwegian kroner | 5 | 6 |
| Euros | 117 | 106 |
| Accounts receivable: | | |
| US Dollar | 56,252 | 8,410 |
| Interest bearing loans: | | |
| US Dollar | 213,035 | - |
| Trade and other payables: | | |
| US Dollar | 9,492 | 6,829 |

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 2023 £000** | Effect on profit before tax 2022 £000 |
|---|---|---|
| 10% strengthening of £ against US$ | 5,085 | (4,612) |
| 10% weakening of £ against US$ | (5,085) | 4,612 |

Liquidity risk

The table below summarises the maturity profile of the Group and Company's financial liabilities at 31 December 2023 based on contractual undiscounted payments. The Group monitors its risk to a potential shortage of funds by monitoring the maturity dates of existing debt.

| **Year ended 31 December 2023** | **Within 1 year £000** | **1 to 2 years £000** | **2 to 5 years £000** | **>5 years £000** | **Total £000** |
|---|---|---|---|---|---|
| Trade and other payables | 97,415 | - | - | - | 97,415 |
| Loans and borrowings | - | - | 213,035 | - | 213,035 |
| Derivative financial liabilities | 4,371 | - | - | - | 4,371 |
| Royalty liability | 5,425 | 6,910 | 14,436 | 16,362 | 43,133 |

| **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 |

Amounts payable as BKR contingent consideration are explained in detail in note 19.

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 currently sold at prices linked to the spot market and the significant majority NGL production is sold at prices linked to the spot market. Oil production for 2024 will be sold at a mix of fixed and spot market linked pricing.

At 31 December 2023 Serica held fixed pricing under oil sales agreements (equivalent to oil price swaps) for approximately 2.5 million barrels at an average price of US$67.4 per barrel for the 2024 period.

Serica held no gas price swaps or equivalent fixed gas price mechanisms at 31 December 2023.

Serica also held fixed price swaps for UKA ETS products consisting of 132,000 MT at £79.24/MT for 2024.

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 2023** | | | | |
| Derivative financial liabilities | 16 | - | 4,371 | - |
| Contingent consideration liability | 19 | - | - | 35,288 |
| Royalty liability | 19 | - | - | 29,715 |
| | | | | |
| **Year ended 31 December 2022** | | | | |
| Derivative financial liabilities | 16 | - | 24,914 | - |
| Contingent consideration liability | 19 | - | - | 29,378 |

There were no transfers between Level 1 and Level 2 during 2022 or 2023.

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 2023, capital employed of the Group amounted to £867.2 million (comprised of £654.2 million of equity shareholders' funds and £213.0 million of borrowings), compared to £408.7 million at 31 December 2022 (comprised of £408.7 million of equity shareholders' funds and £nil of borrowings).

The acquisition of 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 29. 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.

## 23. Equity Share Capital

As at 31 December 2023, the share capital of the Company comprised one "A" share of GB£50,000 and 391,321,053 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's equity share capital, comprising US$0.10 ordinary shares and one 'A' share.

| **Allotted, issued and fully paid: Group** | Number '000 | Share capital £000 | Share premium £000 | Total Share capital £000 | Merger reserve £000 £000 |
|---|---|---|---|---|---|
| As at 1 January 2022 | 268,891 | 21,186 | 160,807 | 181,993 | - |
| Shares issued | 4,062 | 328 | 856 | 1,184 | - |
| As at 1 January 2023 | 272,953 | 21,514 | 161,663 | 183,177 | - |
| Shares issued | 118,368 | 9,439 | 305 | 9,744 | 230,350 |
| As at 31 December 2023 | 391,321 | 30,953 | 161,968 | 192,291 | 230,350 |

During 2023, 8,758,407 ordinary shares were issued to satisfy awards under the Company's share-based incentive schemes. In connection with the acquisition of Tailwind Energy Investments Ltd in March 2023, 108,170,426 ordinary shares were issued at completion of the transaction on 23 March and a further 1,438,849 ordinary shares were issued in September 2023 (see note 29).

2,147,354 ordinary shares have been issued in 2024 to date and as at 19 April 2024 the issued voting share capital of the Company was 393,468,407 ordinary shares and one "A" share.

**Group merger reserve**
Merger relief was applied by the group's parent entity Serica Energy plc upon the respective issues of 108,170,426 ordinary shares in March 2023 and 1,438,849 ordinary shares in September 2023, for the acquisition of Tailwind Energy Investments Ltd. The valuation of the shares issued was based on the fair value at the date of issue, with the nominal value of the shares issued credited to share capital and the excess value of £230.3 million above nominal share capital credited to a merger reserve in the consolidated Group accounts.

## 24. Additional Cash Flow Information

**Net cash flows from operating activities consist of:**

For the year ended 31 December 2023

| | Note | **2023** | 2022 |
|---|---|---|---|
| | | **£000** | £000 |
| Operating activities: | | | |
| Profit for the year | | 102,984 | 177,796 |
| Adjustments to reconcile profit for the year to net cash flow from operating activities: | | | |
| Taxation charge | | 202,639 | 310,382 |
| Change in fair value liabilities | | 7,584 | (8,407) |
| Change in provisions | | 368 | - |
| Gain on acquisition | | (34,048) | - |
| Net finance costs/(income) | | 7,949 | (3,870) |
| Depletion and depreciation | | 109,371 | 76,887 |
| Oil and NGL over/underlift | | (9,256) | 20,270 |
| E&E asset write-offs | | 8,741 | 82,749 |
| Unrealised hedging gains | | (20,397) | (20,877) |
| Movement in gas contract revenue | | (987) | (37,505) |
| Contract revenue - other | | (23,904) | - |
| Share-based payments | | 3,975 | 3,510 |
| Other non-cash movements | | 3,104 | (1,503) |
| Decrease in hedging security advances | | 24,320 | 91,070 |
| Increase in DSA cash advances | | (27,537) | - |
| Decrease/(increase) in trade and other receivables | | 69,895 | (8,571) |
| (Increase)/decrease in inventories | | (983) | 55 |
| (Decrease)/increase in trade and other payables | | (45,449) | 22,872 |
| **Cash inflow from operations** | | 378,369 | 704,858 |
| Taxation paid | | (279,463) | (143,500) |
| Decommissioning spend | | (896) | (1,218) |
| **Net cash inflow from operating activities** | | 98,010 | 560,140 |

**Reconciliation of movement in net cash flow to movement in net cash/(borrowings)**

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Loans assumed upon acquisition (note 29) | (264,835) | - |
| Repayment of borrowings | 81,406 | - |
| Proceeds from borrowings | (34,478) | |
| Amortisation of fees | (3,331) | - |
| Currency translation adjustments | 8,203 | - |
| Movement in total borrowings | (213,035) | - |
| Movement in cash and cash equivalents | (169,037) | 329,545 |
| **(Decrease)/increase in net cash in the year** | (382,072) | 329,545 |
| Opening net cash | 432,529 | 102,984 |
| **Closing net cash** | 50,457 | 432,529 |

**Analysis of Group net cash**

| | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Cash | 182,167 | 146,986 |
| Short-term deposits | 81,325 | 285,543 |
| Loans | (213,035) | - |
| **Closing net cash** | 50,457 | 432,529 |

| **Changes in lease liabilities arising from financing activities** | **2023** | 2022 |
|---|---|---|
| | **£000** | £000 |
| Lease liability at beginning of the year | 213 | 343 |
| Acquisition during the year | 2,180 | - |
| Lease payments | (628) | (132) |
| Lease interest expense | 151 | - |
| Currency translation adjustment | (62) | - |
| Lease liability at end of the year | 1,854 | 213 |

## 25. 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 2023, 800,000 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. No options were granted in 2022 or 2023 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** | **2023 Number** | **2023 WAEP** | 2022 Number | 2022 WAEP |
|---|---|---|---|---|
| | | **£** | | **£** |
| Outstanding as at 1 January | 3,900,000 | 0.14 | 4,100,000 | 0.14 |
| Exercised during the year | (3,100,000) | 0.16 | (200,000) | 0.27 |
| Outstanding as at 31 December | 800,000 | 0.07 | 3,900,000 | 0.14 |
| Exercisable as at 31 December | 800,000 | 0.07 | 3,900,000 | 0.14 |

The weighted average remaining contractual life of options outstanding as at 31 December 2023 is 1.5 years (2022: 2.4 years). The weighted average share price during 2023 across the period that options were exercised in was £2.36 (2022: £3.28).

For the Serica 2005 option plan, the exercise price for all outstanding options at the 2023 year-end is £0.07 (2022: £0.07 to £0.24).

*Long Term Incentive Plan*
The following awards granted to certain Directors and employees under the LTIP are outstanding as at 31 December 2023.

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. The 726,000 Deferred Bonus Share Awards outstanding and fully vested at 31 December 2022 were all exercised prior to their expiry date in May 2023. There are no Deferred Bonus Share Awards outstanding at 31 December 2023.

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

| | **2023 Number** | 2022 Number |
|---|---|---|
| Outstanding as at 1 January | 13,326,567 | 14,448,764 |
| Granted during the year | 1,075,668 | 665,632 |
| Expired or cancelled during the year | (267,827) | - |
| Exercised during the year | (4,217,078) | (1,787,829) |
| Outstanding as at 31 December | 9,917,330 | 13,326,567 |
| Exercisable as at 31 December | 5,718,825 | 7,264,623 |

The weighted average remaining contractual life of options outstanding as at 31 December 2023 is 5.6 years (2022: 7.0 years). The weighted average share price during 2023 across the period that options were exercised in was £2.36 (2022: £3.23).

*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 2023.

*LTIP awards in 2023*

In May 2023, the Company granted nil-cost Performance Share Awards over 1,075,668

ordinary shares under the LTIP. The award was made to members of the Group's executive team and senior management.

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, the highest average share price must be at least equal to 500p during the 180 day period terminating on the end of the performance period together with a significant decrease in carbon emissions per barrel of oil equivalent produced. All of the total awards were outstanding and are not exercisable at 31 December 2023.

*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 2022 and 2023 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 £1.69 (2022: £1.95). The estimated fair value of options is amortised to expense over the options' vesting period.

£3,975,000 has been charged to the income statement for the year ended 31 December 2023 (2022: £3,510,000) 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 £29,551,000 as at 31 December 2023 (2022: £25,576,000). A charge of £2,341,000 (2022: 2,036,000) of the total charge was in respect of key management personnel (defined in note 7).

## 26. Leases

A right of use asset for oil and gas operations (note 13) and its related finance lease were acquired as part of the Tailwind acquisition (note 29). This lease is secured by the assets leased and bears interest at a fixed rate with repayments due over a 5-year period. The total lease liability amounts to £1,768,000 of which £653,000 is due for settlement within 12 months and £1,115,000 due after 12 months. These are classified within trade and other payables. A depreciation charge of £622,000 (2022: £nil) was expensed within cost of sales.

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 Q2 2024. A depreciation charge of £173,000 (2022: £172,000) was expensed within administrative expenses.

£628,000 (2022: £132,000) of cash payments made against the lease liabilities during 2023 are reflected in the 2023 Group cash flow statement as a cash outflow in financing activities.

## 27. Capital Commitments and Contingencies

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.

Serica's planned 2024 investment programme includes a Light Well Intervention Vessel campaign on the Bruce and Keith fields and a four-well drilling campaign in the Triton Area (Bittern B1z, Gannet GE-05, Evelyn Phase 2 (EV02) and a Guillemot NW infill well). Potential further programmes to enhance current production profiles and extend field life are under consideration but will be reviewed carefully in the light of the uncertainty related to the UKCS fiscal regime.

At 31 December 2023, the Group had commitments for future capital expenditure relating to its oil and gas properties amounting to £214 million which relate primarily to the Triton Area four well programme, the Bruce and Keith LWIVs, other capital works on Erskine, Arthur decommissioning and general exploration.

The Group's only significant exploration commitment is the drilling of a commitment well on Licence P2400 (Skerryvore – Serica 20%) to be drilled before October 2025.

Serica has posted cash collateral of approximately £18.3 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 £263.5 million as at 31 December 2023. The funds are freely transferable but alternative collateral would need to be put in place to replace the cash security.

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

## 28. Related Party Transactions and Transactions with Directors

The Group financial statements include the financial statements of Serica Energy plc and its subsidiaries listed in note 30. Balances and transactions between the Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The related party balances have no fixed repayment terms and bore no interest.

The Group's main related parties comprise the Directors and Mercuria Group entities, the latter being related parties due to the significant shareholding of a Mercuria Group subsidiary, Mercuria Holdings (UK) Limited, in Serica Energy plc. Balances and transactions with Mercuria Energy Trading S.A., a subsidiary of the Mercuria Group are disclosed below.

| Balances with related party at year end | **31 December 2023 £000** |
|---|---|
| Mercuria Energy Trading S.A. | |
| Accrued receivables | 20,526 |
| Other financial liabilities | (4,371) |
| Trade payables | (1,426) |
| Accruals | (988) |

On 24 September 2019, the Tailwind sub-group entered in a Junior Facility agreement with Mercuria Energy Trading S.A. for a facility of US$50.0 million with a maturity of 24 September 2026. There were no drawdowns on this facility as at 31 December 2023. This facility was terminated in January 2024 following the refinancing of the Group's reserve-based lending facility (note 21).

| Transactions in income statement with Mercuria Energy Trading S.A. | **Year ended 31 December 2023 £000** |
|---|---|
| Revenue | 162,574 |
| Cost of sales | (7,576) |
| Loss on commodity derivative contracts | (6,872) |
| Gain on currency derivative contracts | 741 |
| Loan commitment fee accrued | 224 |

The above transactions were conducted under contracts already in place when Serica acquired Tailwind Energy Investments Ltd on 23 March 2023, principally the Offtake and Marketing Agreement covering oil offtake from Serica's share in the Triton area and part of Serica's share in Columbus. These contracts were set on prevailing market terms.

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 7 above. These disclosures include the compensation of key management personnel.

A resolution passed at the Annual General Meeting 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 certain dividend amounts by entering into deeds of release in relation to any such claims constituted a related party transaction under IAS 24 and further detail is provided in note 11.

## 29. Acquisition of Tailwind Energy Investments Ltd

On 23 March 2023, the Company acquired 100% of the shares of Tailwind Energy Investments Ltd for an 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 were issued to the sellers in two equal tranches of 1,438,849 ordinary shares in September 2023 and March 2024 respectively. These form part of the aggregate 111,048,124 ordinary shares issued as part of the purchase consideration and were issued after periods of no successful warranty claims.

Tailwind's activities comprise development and production oil & gas assets in the UK North Sea held in interests in joint operations. 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.

As the activity constitutes a business as defined in IFRS 3 Business Combinations, the acquisitions have been accounted for as a business combination. The consolidated financial statements include the fair values of the identifiable assets and liabilities as at the date of acquisition 23 March 2023, and the results of the combined transaction assets for the nine-month period from the acquisition date. In accordance with IFRS 3 Business Combinations, the fair values of the assets and liabilities in the acquisition table below are now final. The fair value of property, plant and equipment was determined using modelled future cash flows on a post-tax basis. A deferred tax liability was also then separately recognised and included in the net deferred tax asset on acquisition as part of the identifiable net assets.

| **Assets acquired and liabilities assumed at date of acquisition** | Fair value recognised on acquisition £000 |
|---|---|
| **Assets** | |
| Property, plant and equipment (note 13) | 486,331 |
| Exploration and evaluation assets | - |
| Net deferred tax asset (note 9) | 264,914 |
| Debtors and other assets | 68,226 |
| Inventory | 6,112 |
| Cash and cash equivalents | 17,600 |
| | 843,183 |
| **Liabilities** | |
| Trade and other payables | (71,798) |
| Contract liabilities (note 16) | (54,174) |
| Financial liabilities | (3,839) |
| Royalty liabilities (note 19) | (34,869) |
| Provisions (note 20) | (75,899) |
| Interest bearing loans (note 21) | (264,835) |
| | (505,414) |
| **Total identifiable net assets at fair value** | **337,769** |

| | |
|---|---|
| Cash consideration | 61,636 |
| Initial consideration shares issued | 235,812 |
| Deferred consideration shares | 6,273 |
| **Purchase consideration** | **303,721** |
| | |
| **Gain arising on acquisition** | **34,048** |

**Fair value of consideration**

The combined purchase consideration of the transaction was £303.7 million, which comprised cash of £61.6 million, the fair value of 108,170,426 ordinary shares in Serica Energy plc issued in exchange for all Tailwind shares, and the fair value of a further 2,877,698 ordinary shares which were issued to the sellers subsequent to the acquisition after the conclusion of periods with no successful warranty claims. The fair value of the initial consideration 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. The deferred consideration share consideration was also valued using the share price on acquisition and this value is approximate to the fair value.

The gain arising on acquisition representing the excess of fair value of the net assets acquired over the purchase consideration largely arose due to a reduction in the value of consideration paid based on the market price of shares issued at the completion date of 23 March 2023.

The excess of fair value of the net assets acquired over the purchase consideration has been recognised as a gain on acquisition in the income statement.

From the date of acquisition, the Tailwind assets have contributed £243 million of revenue and £86 million of profit before tax in the period ended 31 December 2023. Had the acquisition occurred on 1 January 2023, the Tailwind assets would have contributed £338 million of revenue and £154 million of profit before tax for the year ended 31 December 2023.

Transaction costs of £1.8 million incurred in 2022 and £10.1 million in 2023 have been expensed in the Income Statement. Debtors and other assets included in the total identifiable net assets at fair value were equivalent to gross contractual amount receivables.

Reserve Based Lending facility arrangements

Following completion of the acquisition on 23 March 2023, the Serica Group assumed reserve-based lending and junior facility arrangements linked to the legacy Tailwind sub-group (see note 21).

## 30. Subsidiaries

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** |
|---|---|---|---|
| | | | **2023** |
| Serica Holdings UK Ltd (ii) | Ordinary | Holding | 100 |
| Tailwind Energy Investments Ltd (ii)* | Ordinary | Holding | 100 |
| Serica Energy Holdings BV (i & iii) | Ordinary | Holding | 100 |
| Serica Energy (UK) Ltd (i & ii) | Ordinary | E&P | 100 |
| NSV Energy Limited (i & ii) | Ordinary | Holding | 100 |
| Tailwind Energy Ltd (i & ii)* | Ordinary | E&P | 100 |
| Tailwind Energy Sirocco Ltd (i & ii)* | Ordinary | Holding | 100 |
| Tailwind Energy Chinook Ltd (i & ii)* | Ordinary | E&P | 100 |
| Tailwind Mistral Ltd (i & ii)* | Ordinary | E&P | 100 |
| Tailwind Energy Bora Ltd (i & ii)* | Ordinary | E&P | 100 |
| Serica Energy Corporation (i & iv) | Ordinary | Dormant | 100 |
| APD Ltd (i & iv) | Ordinary | Dormant | 100 |
| PDA Asia Ltd (i & iv) | Ordinary | Dormant | 100 |
| PDA (Lematang) Ltd (i & ii) | Ordinary | Dormant | 100 |
| Serica UK Exploration Ltd (i & ii) | Ordinary | Dormant | 100 |

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

*On 10 April 2024 the following companies changed their names as detailed in the table below:

| Previous name | New name |
|---|---|
| Tailwind Energy Investments Ltd | Serica Energy Investments Limited |
| Tailwind Energy Ltd | Serica Energy Meltemi Limited |
| Tailwind Mistral Ltd | Serica Energy Mistral Limited |
| Tailwind Energy Sirocco Ltd | Serica Energy Sirocco Limited |
| Tailwind Energy Chinook Ltd | Serica Energy Chinook Limited |
| Tailwind Energy Bora Ltd | Serica Energy Bora Limited |

The registered office of Serica Holdings UK Limited, Serica Energy (UK) Limited, PDA (Lematang) Limited and Serica UK Exploration Limited is 48 George Street, London, W1U 7DY.

The registered office of Tailwind Energy Investments Ltd, NSV Energy Limited, Tailwind Energy Sirocco Ltd, Tailwind Mistral Ltd and Tailwind Energy Bora Ltd is 62 Buckingham Gate, London, SW1E 6AJ.

The registered office of Tailwind Energy Chinook Ltd is H1 Building, Hill of Rubislaw, Anderson Drive, Aberdeen, AB15 6BY.

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.

### 31. Events Since Balance Sheet Date

On 23 January 2024 Serica announced the completion of a new US$525 million 6-year Borrowing Facility which replaced its existing facility.

On 26 February 2024 Serica announced the completion of the acquisition of 30% non-operated interests in the P2498 and P2170 licences (together the Greater Buchan Area) from Jersey Oil & Gas.

On 6 March 2024, the UK government announced that EPL would be extended for a further 12 months to 31 March 2029 from the former end date of 31 March 2028.

### Reconciliation of non-IFRS measures

Serica uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles ("**GAAP**"). These non-IFRS measures, which are presented within the financial review, are defined below:

**Capital Expenditure (Capex)**: Comprises the spend (prior to tax allowances) on the acquisition of PP&E assets, the purchase of exploration and appraisal assets and decommissioning spend. Depicts how much the Group has spent on purchasing fixed assets in order to further its business goals and objectives. It is a useful indicator of the Group's organic expenditure on oil and gas assets, and exploration and appraisal assets, incurred during a period on a pre-tax basis.

| **£ 000** | **2023** | **2022** |
|---|---|---|
| Purchase of PP&E Assets | 68,588 | 16,298 |
| Purchase of E&E Assets | 9,673 | 80,801 |
| Decommissioning Spend | 896 | 1,218 |
| Capital Expenditure | 79,157 | 98,317 |

**CFFO less current tax**: comprises Cash inflow from Operations adjusted by the tax charge for the year as reflected in Note 9 a). Serica considers that this is a useful measure of the cash generation of the business prior to the decisions made by the Group in relation to capital allocation.

| **£ 000** | **2023** | **2022** |
|---|---|---|
| Cash inflow from operations | 378,369 | 704,858 |
| Less current tax | (183,331) | (277,695) |
| Adjusted CFFO less tax | 195,038 | 427,163 |

**EBITDAX**: Earnings before interest, tax, depreciation and amortisation, impairments, transaction costs, unrealised hedging expenses, FX translation effects, asset revaluation effects, other noncash gains or expenses and exploration expenditure. This is a useful indicator of underlying business performance and the definition adopted by Serica is consistent with that stipulated in the Group's reserve based lending ("**RBL**") facility. A reconciliation from Operating Profit to EBITDAX is provided below:

| £ 000 | 2023 | 2022 |
|---|---|---|
| **Operating Profit** | **321,156** | **476,210** |
| Add Back Transaction Costs | 10,085 | 1,785 |
| Add Back DD&A | 109,198 | 76,887 |
| Add back DD&A in G&A | 173 | - |
| Add Back E&E Expenses and licence costs | 10,844 | 82,934 |
| Deduct contract revenue - other | (23,904) | - |
| (Deduct) / Add Back Unrealised Hedging | (20,397) | (20,877) |
| Add Back FX Effects | 3,591 | (3,903) |
| Add back remeasurements | 368 | - |
| Add back share based payments | 3,975 | 3,510 |
| Deduct Gain on Acquisition | (34,048) | - |
| **EBITDAX** | **381,041** | **616,546** |

**Adjusted Net cash / (debt)**: Total cash and cash equivalents plus the balance of amounts of cash security temporarily lodged in respect of DSAs prior to the finalisation of the RBL recognised on the consolidated balance sheet less the drawn balance under RBL (net of the carrying value of unamortised fees). This is an indicator of the Group's indebtedness and contribution to capital structure.

| £ 000 | 2023 | 2022 |
|---|---|---|
| Interest bearing loans | (213,035) | - |
| Cash and cash equivalents | 263,492 | 432,529 |
| DSA Cash | 27,537 | - |
| Adjusted Net Cash (Debt) | 77,994 | 432,529 |

**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 |
| DSA | Decommissioning Security Agreement |
| ESG | Environmental, Social and Governance |
| ETS | Emissions Trading Scheme |
| FDP | Field Development Plan |
| FPS | Forties Pipeline System |
| GRI | Global Reporting Index (framework for sustainability reporting) |
| HPHT | High pressure high temperature |
| LWIV | Light Weight Intervention Vessel |
| mscf | thousand standard cubic feet |
| mmbbl | million barrels |
| mmboe | million barrels of oil equivalent |
| mmscf | million standard cubic feet |
| mmscfd | million standard cubic feet per day |
| NBP | National Balancing Point |
| 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 |