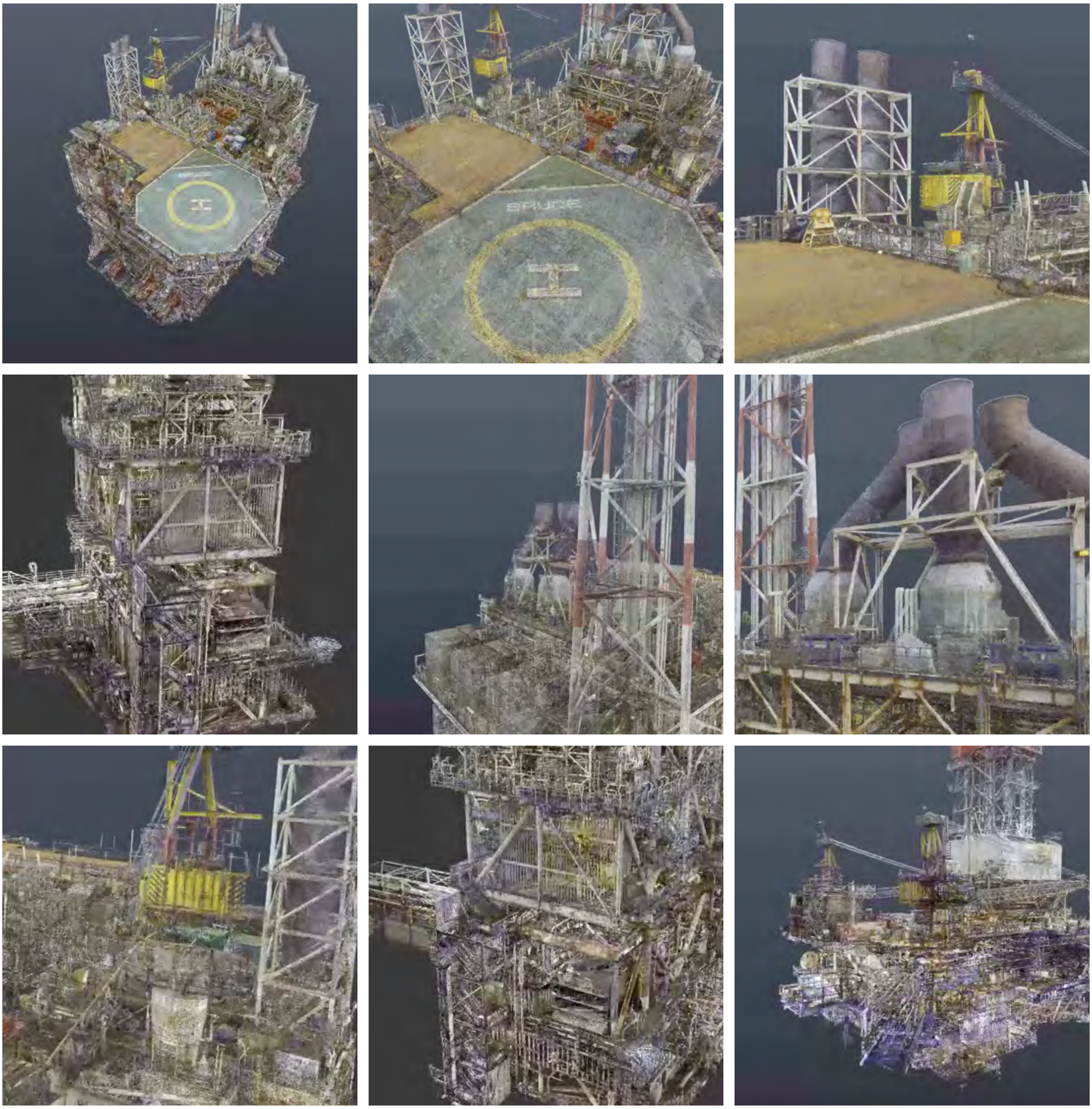
INVESTING IN THE FUTURE

ANNUAL REPORT 2020



CONTENTS

Highlights

2020 Performance 2
Executive Chairman's Statement 4
Serica at a Glance 6

Strategic Report

Chief Executive's Review 8
HSEQ 10
Environmental, Social & Governance 12
Review of Operations 14
Reserves 20
Licence Holdings 21
Financial Review 22

Corporate Governance

Board of Directors 28
Directors' Report 30
Corporate Governance 32
Directors' Responsibilities Statement 46

Financial Statements

Independent Auditor's Report 47
Primary Financial Statements 56
Notes to the Financial Statements 60

Other Information

Glossary 96
Corporate Information 97

"The pedigree of Serica's personnel is outstanding. During one of the most challenging years, our investment in emerging technology such as the creation of the digital twin of our Bruce asset, shown on this year's front cover, has provided our team with the tools to help deliver efficient and safe operations in an environmentally friendly manner whilst creating a blueprint for modern working practices.

Serica's Board would like to acknowledge their respect for the loyalty and focus our team has shown during COVID lockdown."

Mitch Flegg
Chief Executive Officer

"Despite the many obstacles presented during 2020, Serica has continued to strengthen its financial and operational foundations whilst delivering returns to our shareholders."

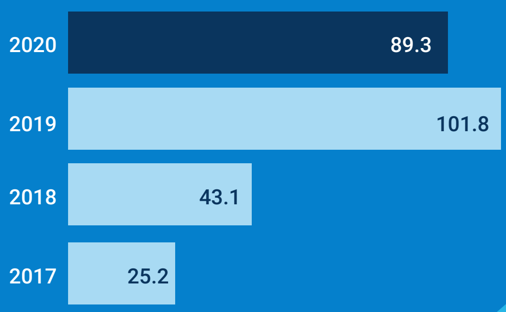
Mitch Flegg
Chief Executive Officer

£12.5 million	Full year profit before tax
DIVIDEND	An increased dividend of 3.5p to be recommended at 2021 AGM
ESG FOCUS	Significant reduction in carbon emissions and flaring
INVESTMENT	In three major capital growth projects
RESERVES	New CPR shows significant reserves upgrade
FIELD LIFE	Cost reduction and efficiency have extended BKR asset life expectancy until at least 2030 ("COP")

2020 PERFORMANCE

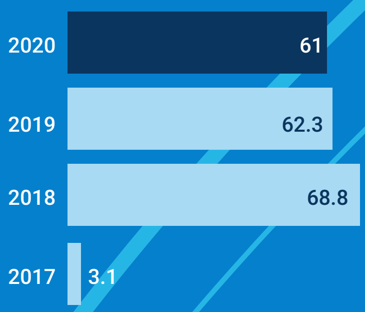
STRONG PROGRESS

Cash balances £m

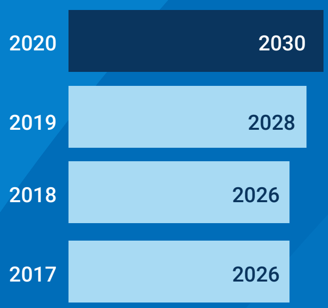


Dividend p/share

Reserves mmboe



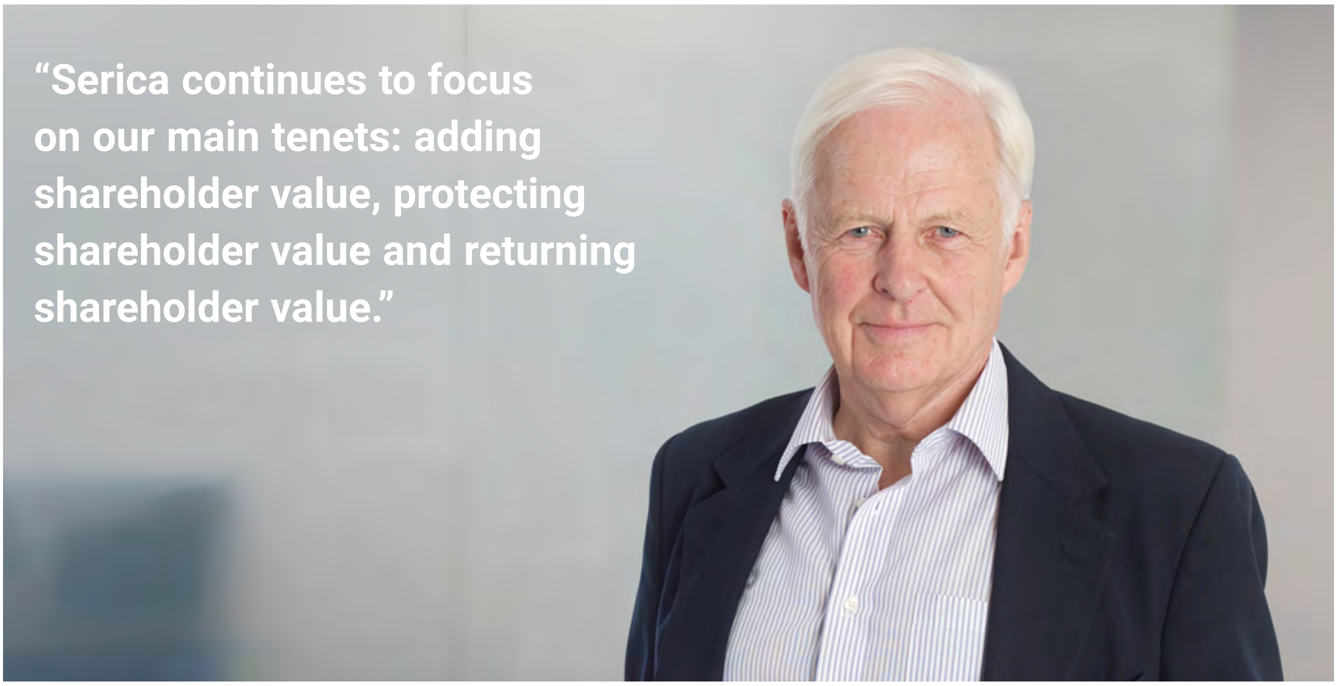
BKR CoP



LOOKING TO THE FUTURE

We enter 2021 with confidence and an undiminished ambition to deliver value for our shareholders. This year we expect to benefit from:

- A strong balance sheet, no debt, limited decommissioning liability
- Investment in three capital growth projects
  - R3 Intervention (ongoing)
  - Columbus development (ongoing)
  - North Eigg exploration well (2022)
- Being well positioned for ongoing M&A activity
- Serica's share of BKR net cash flow increasing to 100% on 1 January 2022



Dear Shareholder,

The past twelve months have seen a perfect storm of events caused by the worldwide pandemic which erupted at the start of 2020. The resultant lockdown, requiring companies to restrict travel, abandon office working, implement social distancing and introduce new digital technologies to facilitate communication, has put considerable strain on established business models and work practices.

In the oil and gas world, we also had to contend with one of the biggest commodity price collapses in recent years, with US oil prices moving into negative territory for a short time early in 2020 and European gas prices dropping to levels which have not been seen for decades. In short, 2020 has been an extraordinarily difficult year to navigate for all industries but particularly for the oil and gas industry.

I am pleased to report that Serica has not only been able to weather these storms, but we have also been able to move forward with all of the projects we set for the year, in particular the Columbus gas field development and the R3 intervention projects. A successful conclusion of these projects should see a significant increase in production levels in the second half of this year to add to the benefits we are already seeing from strengthening commodity prices. We are also entering the last year of the net cash flow sharing arrangements with BP, Total and BHP which formed the basis of our acquisition of the BKR assets in 2018. As a result, we will be retaining 100% of cash flows from these assets from the beginning of next year, up from 60% this year and further strengthening our cash generation.

We have been able to achieve our 2020 operational targets to build for the future with minimal impact on our financial resources. Cash balances remained strong at year end, standing at just under £90 million compared with £101 million at the start of the year despite the low oil and gas prices and after making significant capital investments in the Columbus and R3 projects. In addition, we are reporting a profit for the year of just under £8 million after providing for deferred tax. Albeit significantly less than the £64 million reported for the prior year this demonstrates remarkable resilience during a severe industry downturn.

Prices for both oil and gas have strengthened since the start of this year, particularly gas prices which affect some 80% of our production and which have risen some four-fold from their 2020 low, supporting ongoing spend on our Columbus and Rhum R3 projects. This strong financial position, with no debt and considerable unutilised debt capacity, allows us to prepare for drilling the North Eigg gas prospect next year as well as completing our existing projects this year, continuing investment in the BKR assets and pursuing further growth opportunities.

Last year we paid our maiden dividend, amounting to 3p per share, and did so at a time of considerable upheaval in the oil and gas sector. This year, in view of the Company's continuing strong cash position, we are recommending an increased dividend of 3.5p per share reflecting the Board's confidence in the future prospects for the Company. Subject to approval at the Annual General Meeting in June, this will be paid as a single final dividend to all shareholders on the register at 25 June 2021.

The Company puts considerable emphasis on setting the highest standards that it can to meet environmental, social and good governance expectations of our shareholders, other stakeholders and of society at large. These include diversity where this can be achieved and equal opportunity. As a young company we are able to implement good modern practices and involve all of our employees in seeking to achieve and improve on our targets and we endeavour to bring new thinking and business innovation to these efforts as a focal part of our leadership team. Mitch Flegg, in his CEO's report, will be highlighting some of the steps we are taking and significant improvements we have been able to make to the carbon intensity of our offshore operations since taking over operations two years ago. Further information is provided in our Annual Report and we will also be publishing a full ESG performance report on our website as part of our annual reporting cycle.

Many commentators have questioned the role of oil and gas as the world enters a new phase and new technologies are developed to replace the traditional sources of energy. Targets have been set to achieve Net Zero carbon by 2050 with various stage targets in the intervening period. There is no question that the oil and gas industry is fully committed to meeting those targets and has the technological expertise and knowledge to achieve it but it is a process which will take time to implement. Oil and gas, particularly gas as a relatively clean fuel, will still be required to underpin

"Last year we paid our maiden dividend at a time of considerable upheaval in the oil and gas sector. This year, in view of the Company's continuing strong cash position, we are recommending an increased dividend of 3.5p per share reflecting the Board's confidence in the future prospects for the Company."

this transition and to provide economies with the fuel and materials they need as part of the energy mix to maintain supply and living standards whilst the shift to new sources of energy is implemented and new technologies and the necessary infrastructure are developed.

Serica has a role to play in this transition. As an established North Sea production operator we have the skills and finances to work in partnership with major companies as they seek to optimise their reserves, reduce operating costs, improve profitability and move to lower carbon technologies. With our performance as Bruce operator we have strong ESG credentials and we will be looking to build on this as a fundamental part of any new investment as well as continuing to focus on our main tenets: adding shareholder value, protecting shareholder value and returning shareholder value. Serica has been able to do all three in 2020 and is well-placed to grow on the back of its existing assets as well as building on new opportunities. We are looking forward to 2021.

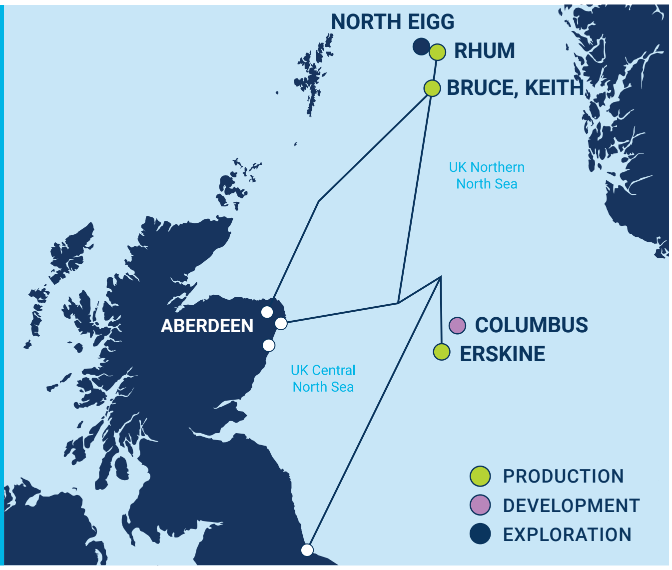
In summary, I am very pleased to report that we have been able to manage the challenges of 2020 and are entering 2021 financially and operationally stronger than ever. This is due in no small part to the huge commitment of Serica's teams in London, Aberdeen and on the Bruce offshore complex. I would like to thank all of them on behalf of the Board and our shareholders for their outstanding performance in such challenging times.

Tony Craven Walker
Chairman

14 April 2021

A nimble, dynamic and experienced company, Serica is now one of the UK's leading mid-tier independent oil and gas companies responsible, through the Bruce platform, for around 5% of the UK's gas production.

Our talented team of 160+ manages a full-cycle portfolio of high quality assets centred on the UK North Sea, delivering production from four fields, implementing our strategy of using technology and experience to maximise the productive life of our fields and drive down costs.



BKR

OPERATOR. SERICA 98% BRUCE, 100% KEITH, 50% RHUM

With over 25 wells, these assets are estimated collectively to contain net 2P reserves of 50.9 mmboe as of 1 January 2021, of which more than 80% is gas.

ERSKINE

SERICA 18% OPERATED BY ITHACA ENERGY

Erskine is a High Pressure High Temperature (HPHT) gas condensate field. From five producing wells Erskine delivered around 2,300 boepd net to Serica in 2020.

COLUMBUS

SERICA 50%, OPERATOR

In the Central North Sea, the Columbus gas condensate prospect spudded on 17 March 2021 via the Maersk Resilient jack-up rig. Development is now ongoing, with first gas anticipated Q4 2021.

NORTH EIGG

SERICA 100%, OPERATOR

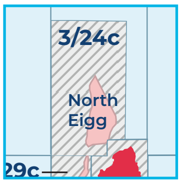
The North Eigg exploration prospect is estimated to contain 367 bcf (P50) and potentially over 1Tcf (P10) of recoverable gas (unrisked). Serica has commenced planning to allow drilling of an exploration well in 2022.

INVESTING FOR GROWTH

Serica's strong balance sheet with significant cash, no debt and limited decommissioning liabilities enables it to pursue its investment strategies unaffected by short-term commodity price fluctuations

2020/21
Rhum R3 intervention work

2021
Columbus Development and first production



2022
North Eigg exploration well (planned)

PRODUCTION

80% gas

Current government forecasts suggest that gas will remain a vital part of the UK's energy mix as we move towards Net Zero. Our commitment is to continue to provide clean natural gas whilst reducing the carbon intensity of our operations.

FIRMLY COMMITTED TO OUR STRATEGY TO DELIVER GROWTH

RESERVES UPGRADE

Serica's consistent focus on cost reduction and operational efficiency have extended the life expectancy of our assets by a further two years, until at least 2030.

Net 2P developed and undeveloped reserves (mmboe)

61.0 end 2020

62.3 end 2019

Production during 2020

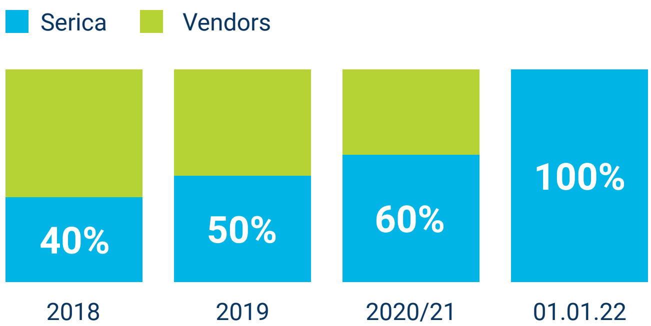
8.1mmboe

PLAYING OUR PART IN TRANSITION

Serica has the skills to thrive as part of the Net Zero Transition, making a contribution to security of energy supply, emissions accountability and the UK economy. As some operators exit the UKCS, Serica's outstanding operating team has proven its ability to innovate and improve asset performance, for example reducing flaring by 62% in our first two years as operator of BKR.

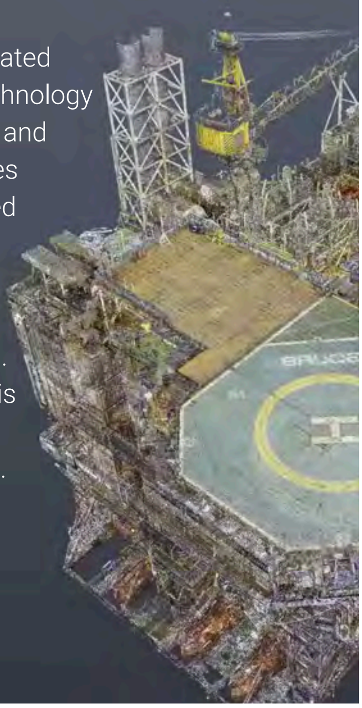
IMMINENT CASHFLOW BOOST

As we enter the fourth and final year of our Net Cash Flow Sharing agreement with vendors BP, Total and BHP, Serica's retained share of cashflow will grow from 2022 onwards.



TECHNOLOGY UPTAKE

COVID-19 has accelerated our uptake of new technology to facilitate intelligent and efficient work practices that will improve speed and accuracy whilst lowering costs in a broad range of ways across our operations. A good example of this is our commission of the Bruce Digital Twin.



HEDGING PROGRAMME

Our gas price hedging programme protects against severe downside gas prices whilst retaining most of the upside benefit. For this reason, Serica continues to increase and extend its hedging position.

£12.3 million

Serica's hedging cash income for 2020

up to 25%

of 2021/2 retained gas sales hedged via swaps *

DIVIDEND

3.5p /share

recommended for 2021

* after adjustment for 2021 net cash flow sharing

"2020 was a year of solid performance and improvement which demonstrated the resilience and profitability of the Company in the face of unprecedented business challenges. 2021 will be a year of continued investment in the growth opportunities which exist in our portfolio."

It is impossible to review any aspect of 2020 without first considering the impact of the COVID-19 pandemic. Serica was quick to implement measures to reduce the likelihood of the virus impacting our operations. We adopted new travel procedures which included reducing the number of personnel on helicopters to and from our offshore installations. We also significantly limited manning levels on the Bruce platform in order to reduce the risk of an outbreak, allow social distancing offshore and provide isolation areas for suspected cases. These reduced manning levels meant that the working conditions were more difficult for those staff remaining on the platform and also meant that we have had to prioritise essential (especially safety and environmentally critical) activities throughout the year. I am delighted to report that due to the incredible skill, hard work and professionalism of our team we have managed to avoid any cases of the virus on our installations and so we have incurred no COVID-19 related interruptions to production. Our safety performance was outstanding with zero recordable injuries sustained during the year. Serica has not furloughed any staff or taken advantage of any of the government assistance programmes.

Serica has demonstrated that it has all of the skills to thrive as a modern, dynamic energy company operating as part of the Net Zero transition. Over 80% of our production is natural gas which is a key component in this transition. Our second annual Environmental, Social and Governance ("ESG") Report will be published along with the Annual Report. In the past year we have reduced Bruce carbon emissions by over 11% and we have achieved a 62% reduction in flaring in only two years as operator of the Bruce platform.

Despite the severe social impact of COVID-19 and the economic impact on commodity pricing which has affected all companies in 2020, I am pleased to report that Serica Energy's robust hedging position, combined with the structure of the transactions under which we acquired our interests in the Bruce, Keith and Rhum ("BKR") fields, has resulted in the Company reporting a full-year profit of £7.8 million (2019: £64.0 million) after provision for deferred tax.

Production levels in 2020 were impacted by a 45-day suspension of BKR production to resolve an issue with an unused caisson on the Bruce platform. As a result, Serica's net production for the year averaged 23,800 boe/d (compared to 30,000 boe/d in 2019). It should be noted that the 45-day shut-down occurred in the early part of the year when gas prices were significantly lower than late in the year. The production from the 45-day period is not lost but deferred and the shut-down is not expected to have any impact on ultimate recovery from BKR.

Gas prices for the year averaged less than 25 pence per therm before hedging gains but Serica's gas price hedging programme effectively fixed prices for approximately one-third of our retained 2020 gas sales at approximately 39 pence per therm. This hedging programme delivered cash income of £12.3 million during 2020. We continue to extend our hedging position and for 2021 and 2022 Serica has swaps in place covering up to 25% of retained gas sales after adjustment for 2021 net cash flow sharing. These swaps provide some protection against severe downside gas prices whilst retaining the potential upside benefit from the majority of production.

We continue to focus on minimising our cost base and in 2020 we have realised further reductions in our absolute operating costs. However, when expressed as costs per barrel there is an increase to US$14.12/boe (2019: US$12.60/boe). The increase in operating costs per barrel reflected lower production volumes caused by the 45-day BKR production suspension in the first half and does not indicate an increase in the underlying trend.

Serica has commissioned a new Competent Person's Report ("CPR") effective 1 January 2021 and this has identified an upgrade to net 2P Reserves estimates particularly due to the successful efforts to extend the prognosed Cessation of Production ("COP") on Bruce through which all Bruce, Keith and Rhum production is processed. I am delighted to report that the latest CPR estimates that the Bruce COP (2P case) has been extended by a further two years and is now predicted to occur in 2030. In the last two years we have extended COP by a

"We see significant benefits and potential in our existing portfolio and continue to look at new opportunities to expand our operations to diversify risk, provide new growth prospects and achieve economies of scale."

total of four years; this is a clear indication that our BKR life extension strategy is being successful. Our net 2P reserves stood at 62.3 million boe at 1 January 2020 and our 2020 net production was more than 8 million boe but due to these upgrades, after 2020 production, our net 2P reserves at 1 January 2021 stand at 61.0 million boe.

During 2020, Serica decided to withdraw from Namibia where we had originally been awarded a licence in 2011. Following a full review, we elected not to seek a further renewal period or to continue with a new licence application. The pace of exploration activity in Namibia had been slower than we hoped, and the development of any discovery would likely have been high cost, time consuming and inconsistent with our sustainability objectives. Therefore, we have decided to concentrate on the numerous lower risk, nearer term opportunities in our North Sea portfolio. In particular we have a programme of three investment projects that each have the ability to generate significant value for the Company:

1. The Rhum field currently produces from two wells (R1 and R2) which are subsea tie- backs to the Bruce platform. A third well (R3) was drilled when the field was originally developed but was not put into production due to mechanical issues with equipment in the well. In late 2020, operations commenced to remedy these problems. The completion equipment installed in the well by the previous operator in 2005 has been fully recovered. We are now in the process of regaining access to the reservoir prior to running a new completion, reperforating and flowing the well. R3 is expected to accelerate field production, with the potential to bring additional reserves into the commercial lifespan of the field, and to provide operational back-up to the existing two wells.
2. The Columbus development well in the UK Central North Sea was spudded in March 2021. The well is being drilled with the Maersk Resilient jack up rig to a total depth of 17,600ft and will include a 5,600ft horizontal section. The Columbus development area is 35km north east of the Shearwater production facilities and will be drained by a single producing well tied into the existing Arran-Shearwater pipeline. The recent Competent Person's Report estimates the Columbus gross undeveloped 2P reserves to be in excess of 14 million barrels of oil equivalent ("boe"). Serica is operator and has a 50% interest in the project. Production is expected to commence in early Q4 2021, with average production forecast to be around 3,500 boe/d net to Serica, of which over 70% is gas.
3. Planning is ongoing for the drilling of the HPHT North Eigg exploration well which we expect to spud in 2022. This prospect is located in the area adjacent to the Serica operated Rhum field and in the event of a discovery, Serica will investigate options for subsea tie-backs to the Bruce facilities and topsides modifications to ensure a low cost, low emission design to enable early development, maximise recovery and optimise production. Serica has carried out an in-house evaluation of the prospect and estimates the unrisked prospective recoverable resources, based on seismic mapping and Rhum analogue data, to be around 70 million boe.

2020 was a year of solid performance and improvement which demonstrated the resilience and profitability of the Company in the face of unprecedented business challenges. 2021 will be a year of continued investment in the growth opportunities which exist in our portfolio. The end of 2021 will represent another huge milestone for the Company with the expiry of the cash flow sharing arrangement under which Serica has been sharing the net cash flow from BKR variously with BPEOC, Total E&P and BHP who originally sold us their interests. In 2021 Serica retains 60% of the net cash flow but this will increase to 100% on 1 January 2022 and stay at that level thereafter providing a significant cash boost for the Company.

Serica's strategy is to build on the strong financial and operating capabilities which the Company has established in the UK Sector of the North Sea and focus on our strong ESG credentials. Whilst we see significant benefits and potential in our existing portfolio and continue to look at new opportunities to expand our operations to diversify risk, provide new growth prospects and achieve economies of scale. We are confident that we have the resources to deliver this strategy and the platform to create additional value for shareholders.

Mitch Flegg
Chief Executive Officer

14 April 2021

HSEQ is integral to our business. Our HSEQ Manager reports directly to our Chief Executive and our HSE Board Committee meets quarterly. We continuously focus on improving our HSEQ performance and during 2020 delivered the following initiatives:

FIRST AID CASES

>50%
reduction

SUPERB PERFORMANCE WITH ZERO RECORDABLE INJURIES

Total Recordable Injury Frequency (TRIF) measures the number of recordable injuries (based on OSHA criteria) per 200,000 work hours. We recognise that good personal safety performance is not indicative of overall safety performance, however, poor performance certainly suggests all is not well. In December, Serica achieved a TRIF rate of zero across all our operations. The team are rightly proud of this accomplishment and remain focused on maintaining an injury free workplace.

CATEGORY	2019	2020
Day Away From Work Cases (DAFWC)	3	0
Restricted Work Injury/Illness	3	0
Medical Treatment Injury/Illness	1	0

OVERHAULING OUR OPERATING MANAGEMENT SYSTEM

Our HSEQ Policy is implemented through our Operating Management System (OMS) which includes many Policies, Practices, and Standards. In 2020, we commenced an ambitious project to review and revise our OMS to minimise complexity and align with our values and goals.

HYDROCARBON RELEASE PREVENTION

5 KEYS TO PREVENTION
Leadership engagement and communication
Incident learnings and culture
Strengthening operational integrity
Strengthening asset integrity
Self verification and assurance

These key focus points were identified by our Hydrocarbon Release Prevention group, formed in in 2020 and led by our Engineering Manager. The group meets regularly.

We recognise the need for continual vigilance to prevent the unplanned release of hydrocarbons from our assets and the team have our full support.

AUDIT AND ASSURANCE

Restrictions on personnel, both on and offshore, necessitated a novel approach to the delivery of our audit and assurance activities. Using collaborative technology, and with the co-operation of our contractors, we were able to execute both internal and third party audits successfully.

INVESTING IN OUR TEAM

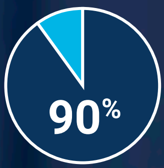
Hazard Identification Training

To maintain a safe workplace, it is critical that we know our risks and how to manage them. Central to this is the ability of our personnel to identify and evaluate hazards. In 2020, we conducted a training programme designed to improve hazard identification skills. A structured methodology, based on energy sources, was developed and personnel learned how to apply the process in various scenarios from planning through to work execution.

Focus on Health and Wellbeing

We recognise the importance of cognitive and emotional wellbeing in our workforce and 2020 presented some additional challenges for our team. The COVID-19 pandemic led to home working, with many people also managing the home schooling of their children. To keep the team connected and promote social interaction, which was difficult for many, we have supported flexible working patterns, created a wellbeing hub populated with useful resources, and organised regular online social events. We also trained additional Mental Health First Aiders both on and offshore.

SAFETY OBSERVATION PROGRAMME



Participation in our safety observation programme is actively encouraged and reached record levels in 2020. On average, 90% of the personnel on our Bruce installation participate in the programme each week. This is a strong indication that our workforce is prepared to intervene when they see a risk, and to commend and enforce positive behaviours.

EMERGENCY RESPONSE

10
emergency exercises in 2020

Another challenge presented by COVID restrictions was the ability to respond and support an emergency scenario from remote locations. We reacted quickly to the challenge and conducted 10 emergency exercises in 2020 involving Duty Managers, Incident Management and Incident Support Teams.

MAINTAINING STANDARDS

As an operator, Serica's responsibility to manage Major Accident Hazards was unchanged when COVID-19 significantly reduced numbers of personnel offshore. Our teams seized the challenge, generating innovative ideas which have added long term value to our business.

ENVIRONMENTAL

In spite of the many challenges of the year Serica increased its commitment to improving our environmental performance. You can read more about our ESG work during 2020 overleaf.

"We recognise that positive HSEQ performance is the foundation of our business and success requires the engagement and support of all our staff, contractors and partners."

Craig Robertson
HSEQ Manager

Serica has set out to build on its ESG performance, instilling an ESG culture into its staff, management and Board. Serica commits to transparent reporting and setting clear targets, which are linked to staff remuneration.

2020 COMMITMENT	WHAT WE ACHIEVED IN 2020
Further reduce emissions	CO_2 emissions on Bruce in 2020 were 10% lower than in 2019. Flaring was 45% lower
Providing transparency in its ESG reporting	Serica now reports to GRI, SASB, TCFD and UN Global Compact. We are aligned to the UNSDGs. We have set KPIs and made achieving ESG targets part of our remuneration structure
Including the impact of carbon emissions in all business development decisions	The language of ESG has grown throughout the organisation. Offshore on the Bruce platform, there are daily flare discussions, on drilling rigs we monitor emissions more closely, engineering solutions are sought with emissions in mind and there are regular ESG updates to the board, in the HSE committee meetings and in main board meetings. Cost of carbon is incorporated into our economic evaluation of assets and aligning with TCFD will make this process more formal.
Increasing workforce engagement in charitable activities and knowledge sharing	Four ESG committees were set up to engage staff in charity, D&I, education and emissions reduction. An ESG Champion programme was also created for offshore workers on Bruce. The ESG report shows the achievements of these groups.

In 2020, our VP ESG and Business Innovation formalised the Company's ESG ambitions by setting up four new staff run committees to engage and motivate staff to get involved in supporting the UN Sustainable Development Goals. In addition, an ESG Champions committee was set up offshore to identify and execute practical ways to reduce emissions and waste and support Company targets. The supply chain team instigated a number of initiatives such as 'Zero Waste to Landfill' from the Bruce platform, using a ferry service to reduce emissions from supply vessels and using packaging pods to transport equipment to lower packaging waste.

FOCUSING STAFF ON KEY ESG ISSUES WITH BONUS KPIs	
1	Carbon intensity
2	Flare volumes
3	Workforce engagement in ESG
4	Waste volumes generated
5	Diversity of personnel

These targets, equally weighted for all employees, were selected to advance our commitments to the UNSDGs. Climate action is the most material to our industry but we also focus on waste reduction and acting on new initiatives.

A Diversity & Inclusion committee is working on improvements to our recruitment processes to ensure we provide equal opportunities and encourage diversity in the workplace.

For local community engagement, the charity committee has supported local charities Abernecessities, Cfine and Clan. These charities support vulnerable people in the Aberdeen area supplying foodbanks, clothes and support for cancer sufferers. Serica also donated funds to a local Aberdeen school to provide laptops during lockdown to help disadvantaged pupils continue to study. At the start of the COVID-19 pandemic staff raised money and we gave a company donation to NHS charities to provide PPE at a time when there were shortages.

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

“I am proud to report that Serica delivered on its ESG commitments for 2020 and has grown its culture to deliver even more this year. There is a greater understanding throughout the company and more ownership of ESG targets, drawing on innovation, creativity and passion.”

Clara Altobell
VP ESG and Business Innovation

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

Serica operates the Bruce field and facilities consisting of three bridge-linked platforms, wells, pipelines and subsea infrastructure. The platforms contain living quarters for up to 168 people, reception, compression, power generation, processing and export facilities and a drilling derrick that is currently mothballed.

The Bruce field is produced through a combination of platform wells and subsea wells tied back to the platform, with over 20 wells producing from multiple reservoirs and compartments. Bruce production is predominantly gas which is rich in NGLs. 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.

The offshore team is supported onshore by the Serica technical headquarters in Aberdeen which has a live video link to the platform, streaming data and offering seamless communication with the offshore crew. The onshore support team was already using video links to provide support to the platform, so whilst working from home during the COVID- 19 pandemic, that technology has allowed Serica to provide uninterrupted support to the offshore operation.

In January 2020, during a Bruce platform inspection, the condition of an unused seawater return caisson on the platform was observed to have deteriorated. This caisson had been taken out of service in 2009. Production through the Bruce facility was halted while the problem was fully investigated.

A subsequent underwater inspection determined that the caisson had parted below the water line. Both the upper and lower sections of the caisson were intact and engineering work to ensure that the caisson was properly secured commenced.

Work was successfully undertaken during the following weeks and the caisson sections secured, allowing production to restart on 5 March. During August, further work was undertaken to remove damaged parts of the caisson back to shore.

To maintain operations during COVID-19 restrictions, increased social distancing offshore, pre-mobilisation testing, social distancing on transportation (including helicopters) and other practical control measures were introduced. This reduced the number of personnel working offshore by 30%. This had an initial impact on the quantity of work that was able to be executed offshore, but during the year Serica found ways to remove inefficiencies whilst maintaining reduced numbers offshore. No pandemic production interruptions occurred in 2020.

Bruce field production in 2020 averaged in excess of 9,600 boe/d of exported oil and gas net to Serica (2019: 13,100 boe/d) with the reduction primarily as a result of the 45-day caisson shut-down. Full year production reliability was 84.7% (96% excluding the caisson interruption).

The latest independent report of reserves, compiled by RISC Advisory, estimated 2P reserves of 15.7 million boe net to Serica as of 1 January 2021 (2020: 22.2 million boe).

The restricted programme of well work during 2020 has led to declassification of some 2P reserves pending reinstatement of this work in future periods.

INVESTING IN TECHNOLOGY TO DRIVE DOWN COSTS

As part of the drive to be more efficient, during 2020 Serica created a digital twin of the Bruce facility to enable more onshore support (maintenance campaigns, visual inspection, modification design and pipework fabrication) to be undertaken without personnel having to visit the platform. As an example, one specific inspection scope that had previously been forecast to cost £150,000, was carried out with reductions of 75% in offshore days and 40% in the total cost. This reduces cost, shortens response time and minimises travel risk. Further enhancements to this technology will be incorporated in future years.

EXAMPLE OF COST SAVINGS

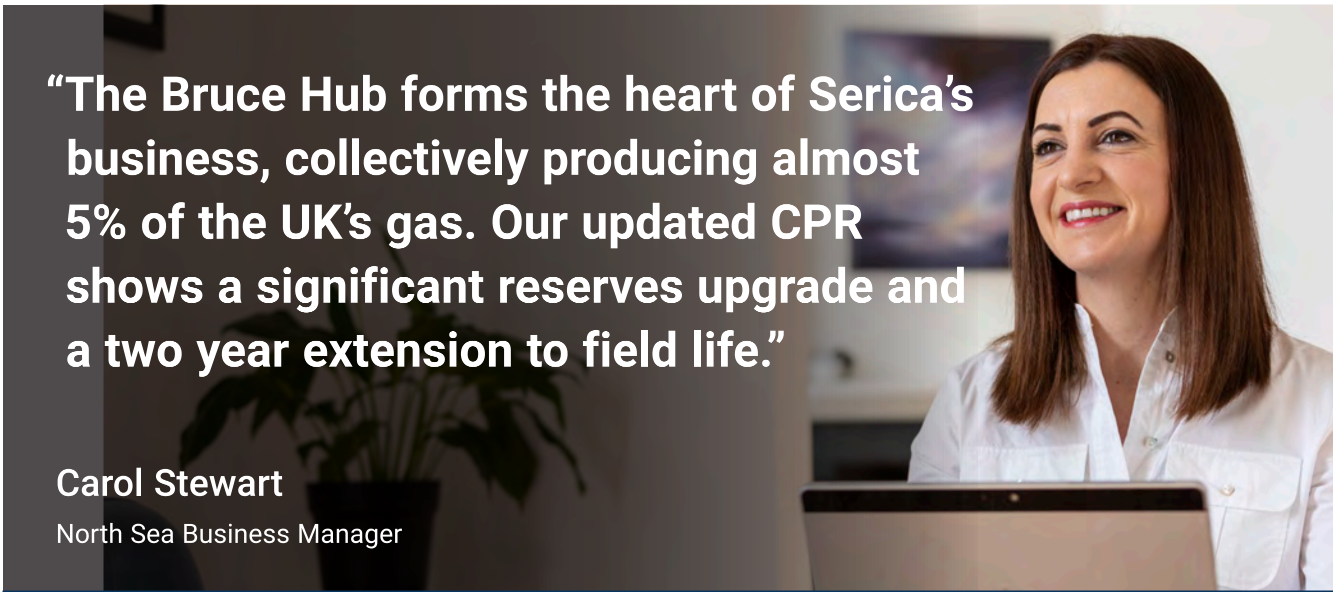
2020 inspection delivered with:

75%
fewer offshore days

40%
cost reduction

“Whilst working from home during COVID-19, technology has allowed Serica’s onshore team to provide seamless, uninterrupted support to our offshore operation.”

Mike Killeen
VP Operations



> **“The Bruce Hub forms the heart of Serica’s business, collectively producing almost 5% of the UK’s gas. Our updated CPR shows a significant reserves upgrade and a two year extension to field life.”**

Carol Stewart
North Sea Business Manager

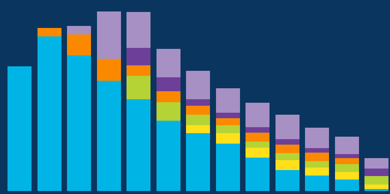
OUR STRATEGY TO MAXIMISE THE ECONOMIC LIFE OF BRUCE

Serica’s strategic objective for the Bruce Hub is to maximise its economic life.

In pursuit of this objective, Serica will:

- Operate safely and fulfil our ESG and HSE responsibilities
- Seek to sustain base production through management of the existing well stock including well work, investing in maintenance of the facilities and efficiently controlling operating costs
- Aim to enhance utilisation of the Bruce facilities through investment in equity production and attracting third-party business.

We will harness technology and innovate to maximise the economic life of the Bruce Hub



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

Keith is an oil field produced by one subsea well tied back to the Bruce facilities. Keith produces at a relatively low rate but provides a low-cost contribution to oil export from Bruce. Keith production was interrupted in January 2020 initially due to the Bruce caisson issue and thereafter when required topsides reinstatement work was unable to progress due to the reduced number of people offshore in response to COVID-19. An intervention to restore flow from Keith was successfully carried out in late March 2021 and further enhancement work is planned in Q2. Keith production during 2020 was minimal but average production in 2019 was around 450 boe/d. No 2P reserves were included in the most recent reserves report pending successful reinstatement of production.

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

The Rhum field is a gas condensate field producing from two 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. The field continues to outperform our expectations at the time of acquisition.

An intervention campaign is under way to workover the R3 well and allow it to be brought onto production. The well was drilled at the same time as the other two Rhum production wells, however problems were encountered in 2005 by the previous operator during well completion. The well was left with an ice-like hydrate plug which prevented it from flowing; attempts at that time to rectify this additionally resulted in wireline debris being left in the well.

Serica has successfully remedied both issues, recovering the wireline ‘fish’ and dissociating the hydrate plug with heated fluid. The well is now being prepared for production. The operation has taken longer than anticipated due largely to the unexpectedly poor condition of the equipment being recovered from the well and also to periodically severe weather conditions. Production from the well is now expected to commence in Q3. Total R3 capital costs are now projected at £21.0 million, net to Serica after adjustment for net cash flow sharing, of which £11.5 million will be spent in 2021. This represents a total cost overrun of £9.7 million net to Serica.

Average Rhum production in 2020 was over 11,900 boe/d net to Serica (2019: 13,775 boe/d) the reduction being primarily as a result of the Bruce caisson shut down. The latest independent report of reserves, compiled by RISC Advisory, estimated 2P reserves of 35.1 million boe net to Serica as at 1 January 2021 (2020: 28.7 million boe).

The significant increase after adjustment for 2020 production demonstrates Serica's progress in extending projected field life and adding to recoverable reserves.

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

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

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

The flash and export coolers that are part of the Erskine production module located on the Lomond platform were replaced in April 2020. The 2020 Forties Pipeline System maintenance shut-in, planned for June 2020, was deferred due to COVID-19 until May 2021. However, the Lomond offtake facilities and the Erskine field were shut in for 35 days during Q3 to carry out an extensive maintenance programme.

The high frequency pigging programme on the condensate export line has continued and no indications of wax build-up have been seen. Serica is supporting Ithaca and Harbour Energy with their reliability improvement plans for the Erskine system and provides a secondee to Lomond as part of the offshore management team.

Erskine production levels in 2020 averaged over 2,300 boe/d net to Serica (2019: 2,700 boe/d) after the planned 35 day maintenance shut-down in Q3. Full year production reliability in 2020 was slightly above 82%, after exclusion of the maintenance shut-down, which was comparable to 2019. The latest independent report of reserves, compiled by RISC Advisory, estimated 2P reserves of 3.1 million boe net to Serica as of 1 January 2021 (2020: 4.1 million boe).

> “Serica has invested in three major capital projects, all of which have progressed signficantly during 2020. Our aim is to expand our portfolio and our focus is on value.”

Fergus Jenkins
VP Technical

Central North Sea: Columbus Development
Blocks 23/16f and 23/21a (part)
Serica 50% and Operator

Serica is development operator with partners Tailwind Energy Limited (25%) and Waldorf Production Limited (25%). Columbus is located in the Eastern Central Graben, UK Central North Sea and the reservoir is located within the Forties Sandstone. Columbus has been designated as a development within the Lomond Field Area; it is however independent of Lomond, having separate development consent, export route and licence terms.

The development comprises a single horizontal well with a subsea completion connected to the Arran-Shearwater pipeline, through which Columbus production will be exported along with Arran field production. The Arran export pipeline was approved at a similar time to Columbus and has now been constructed and laid on the seabed, though it has not yet been tied into the Shearwater platform. When production from Arran and Columbus reaches the Shearwater facilities, it will be separated into gas which is exported via the SEGAL line to St Fergus and liquids which are exported via the Forties Pipeline System to Cruden Bay.

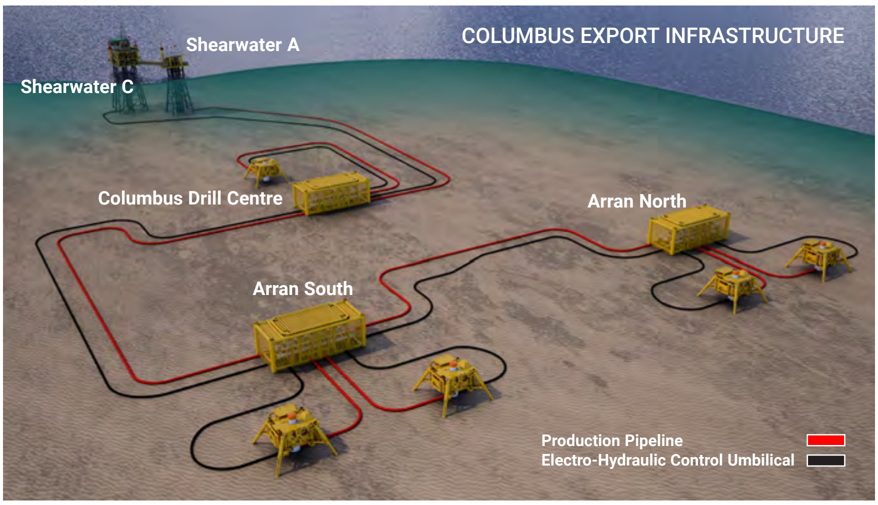
Columbus development timing is dependent on the export pipeline being tied into the Shearwater platform and Arran exports beginning. Columbus start-up is therefore expected during the fourth quarter of 2021, once stabilised production conditions have been achieved following the Arran field coming on-line.

The Maersk Resilient heavy-duty jackup rig was contracted to drill the 23/16f-C1 development well; it arrived on site on 6 March and the well was spudded on 17 March 2021. The well is planned to be drilled to a total depth of 17,600ft and will include a 5,600ft horizontal section through the reservoir. Well operations are expected to take around 70 days.

After drilling the well, an open-hole sand-screen completion will be installed and a short clean-up flow and well test will be performed to provide production data and prepare for flowing into the export system. The well will then be suspended, before being connected to the Arran-Shearwater pipeline later in the year. When production commences, average gross production is forecast to be around 7,000 boe/d, of which over 70% will be gas.

The latest independent report of reserves, compiled by RISC Advisory, estimated 2P reserves of 7.1 mmboe net to Serica as at 1 January 2021 (2020: 6.7 million boe).

MAERSK RESILIENT



COLUMBUS EXPORT INFRASTRUCTURE

REVIEW OF OPERATIONS – EXPLORATION

UK

North Eigg and South Eigg – Blocks 3/24c and 3/29c

Serica 100% and Operator

In December 2019, Serica was awarded the P2501 Licence as part of an out of Round application; this comprises Blocks 3/24c and 3/29c and contains the North Eigg and South Eigg prospects. The official start date for the licence was 1 January 2020. The work programme involves reprocessing seismic data and drilling an exploration well within three years of the start of the licence. The North Eigg prospect has been high-graded for drilling, being clearly visible on 3D seismic data and sharing many similarities with the nearby Rhum field, operated by Serica.

Work has started on planning to drill the exploration well, which is expected to be high temperature and high pressure, during the summer of 2022. In the event of a commercial discovery, Serica would seek a fast-track route to develop the field, whilst implementing options that would reduce emissions. This could potentially be via a subsea tie-back to the Serica operated and 98% owned Bruce facilities, which are to the south of the prospect. This would bring the benefits of reducing the overall carbon intensity of the Bruce facilities and extending the life of the infrastructure.

Columbus West – Block 23/21b

Serica 50%, Operator Summit Exploration and Production

An extensive work programme was undertaken to mature the prospectivity on the licence. Despite this work, stratigraphic trapping and sealing mechanisms for the prospects remained elusive and could not be satisfactorily confirmed. The seismic data response was also suggestive of oil rather than gas accumulations and the economics were determined not to be favourable for an oil development, as there was no nearby tieback host.

Taking current market outlook into consideration, and the approaching commitment required to move to the next phase of the licence which would have meant relinquishing 50% of the initial licensed area and committing to drill a well, the risk-reward ratio related to proceeding with West Columbus was not deemed sufficient to proceed with exploration drilling.

Serica therefore supported the operator's recommendation to relinquish the licence.

Skerryvore and Ruvaal– Blocks 30/12c (part), 30/13c (split), 30/17h, 30/18c and 30/19c (part)

Serica 20%, Operator Parkmead

The Skerryvore and Ruvaal prospects lie in the Central North Sea, 60km south of the Erskine field. Over 500 km² of 3D seismic data has been purchased over the licence areas. The seismic data is being reprocessed and will then be interpreted to enable a drill or drop decision to be made on the prospects. For a variety of reasons, delivery of the reprocessed data was delayed by almost a year during 2020, so interpretation work is yet to begin; the operator therefore applied to OGA for an extension to the initial three-year licence term and it has now been extended by 12 months to September 2022. Interpretation will start as soon as data is made available.

Licence Awards in the UK 32nd licensing round

In December 2020 Serica was formally awarded four new blocks in the UK 32nd licensing round. Blocks 3/25b, 3/30, 4/26 and 9/5a are in the vicinity of the Bruce hub and include several leads which, if successful, could be tied back to Serica's existing infrastructure. The work programme does not include any commitment wells but is designed to mature these leads to drill-ready status.

Namibia

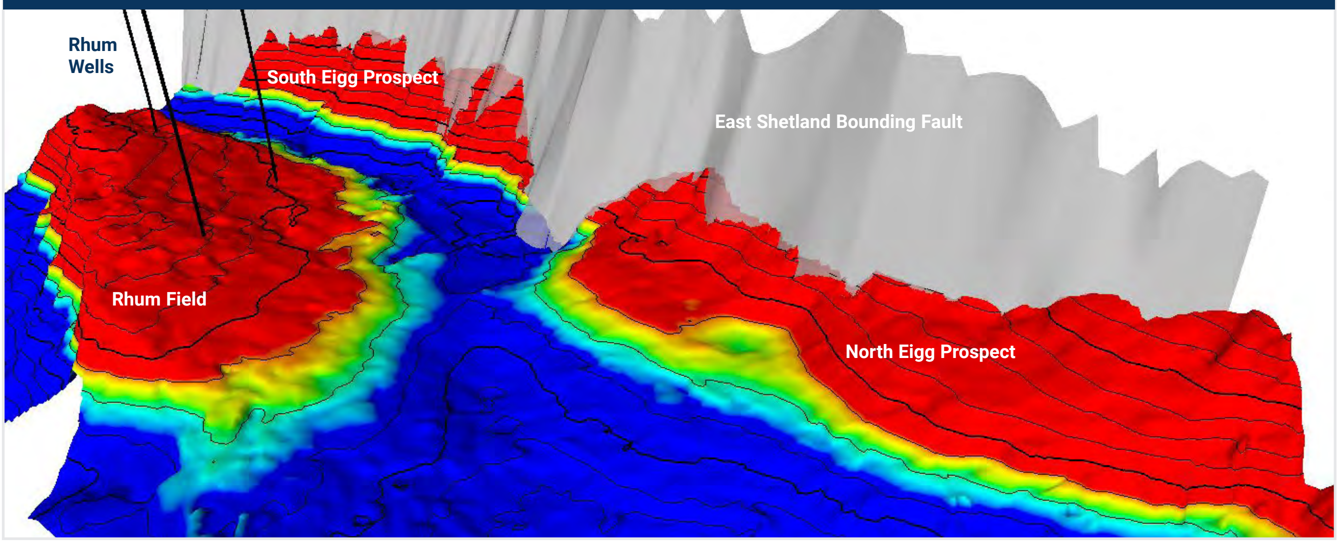
Luderitz Basin: Blocks 2512A, 2513A, 2513B and 2612A (part)

Serica 85% and Operator

Serica Energy Namibia B.V. (the Company's subsidiary holding interests in Namibia) had an 85% interest in a Petroleum Agreement in the Luderitz Basin, offshore Namibia. Following completion of the initial licence period which had already been extended until the end of 2019 whilst partners were sought to drill an exploration well, Serica worked with the Ministry of Mines and Energy to discuss the options of a further extension or new licence application.

However, due to COVID-19 restrictions, exceptionally low oil and gas prices, and market uncertainties, these discussions were delayed. After further review Serica then elected not to progress this and made the decision to withdraw from Namibia to focus on activities in the UK North Sea which are nearer to existing infrastructure, such as drilling North Eigg in 2022 and working on the 32nd Round licences.

NORTH EIGG EXPLORATION WELL, HIGH GRADED TO DRILL IN 2022



GROUP PROVED PLUS PROBABLE RESERVES ("2P")

Group Proved plus Probable Reserves ("2P")

	Oil mmbbl	Gas bcf	Total oil and gas mmboe
2P Reserves at 31 December 2019	**14.8**	**284.7**	**62.3**
2020 production	(0.9)	(40.8)	(8.1)
Revisions	(1.1)	45.3	6.8
2P Reserves at 31 December 2020	**12.8**	**289.2**	**61.0**

* Total Group gas reserves at 31 December 2019 and 2020 have been converted to barrels of oil equivalent using a factor of 6.0 bcf per mmboe for reporting and comparison purposes. As the actual calorific values of gas produced from individual fields varies, reported production rates for each field and the total production and revisions numbers reported above do not convert precisely.

Group Proved and Probable reserves as at 31 December 2019 were based on the independent report prepared by Lloyd's Register ("LR") in accordance with the reserve definitions guidelines defined in SPE Petroleum Resources Management System 2018 ("PRMS 2018"). LR closed their consultancy division in 2020 and Serica selected RISC Advisory ("RISC") to prepare an independent report as at 31 December 2020 using the same guidelines.

Figures quoted relate to export fluids, so Fuel in Operation (reported in previous reports) is not relevant as it has already been subtracted.

Impacts of COVID-19 meant that some of the planned production enhancement work on Bruce was not carried out in 2020; as this relies on equipment upgrades which were also delayed, the work cannot be carried out in the short-term and this was reflected in the re-classification of some volumes from reserves to contingent resources (hence they do not contribute to the figures in the table above). Once this work has been reinstated in the firm work programme, these volumes will again form part of the 2P reserve.

Additional data from Rhum caused a revision to in-place gas which resulted in a material increase to the recoverable reserve estimate for the field. This offset much of the Bruce reserves reduction and Serica's 2020 production.

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

LICENCE HOLDINGS

The following table summarises the Group's licences as at 31 December 2020.

Licence	Block(s)	Description	Role	%	Location
United Kingdom					
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
P.101	23/21a Columbus	Columbus Development Area	Operator	50%	Central North Sea
P.1314	23/16f	Columbus Development Area	Operator	50%	Central North Sea
P.57	23/26a	Erskine Field Production	Non-operator	18%	Central North Sea
P.264	23/26b	Erskine Field Production	Non-operator	18%	Central North Sea
P.2400	30/12c, 30/13c, 30/17h, 30/18c	Exploration	Non-operator	20%	Central North Sea
P.2402	30/19c	Exploration	Non-operator	20%	Central North Sea
P.2501	3/24c,3/29c	Exploration	Operator	100%	Northern North Sea
P2506*	3/25b, 3/30, 4/26, 9/5a	Exploration	Operator	100%	Northern North Sea

* Licence dated 19 January 2021

"BKR net cash flow sharing, plus gas price hedging, substantially mitigated the cash impacts of oil and gas price falls and the 45-day Bruce platform shut-down."

Andy Bell

VP Finance

Field revenues and costs are booked for Serica's full equity interests and included within gross profits. Under the BKR deals, amounts are due to the asset vendors for net cash flow sharing (50% in 2019, 40% in 2020 and 2021) and certain other deferred payments. Estimates of these amounts were included within the fair value upon acquisition and subsequent changes are included as 'Change in fair value of BKR financial liability' within profit before tax for each reported period. Such variations are driven principally by changes in commodity sales prices and production volumes.

2020 Results

Serica generated a profit before taxation for 2020 of £12.5 million compared to £108.8 million for 2019. After non-cash deferred tax provisions of £4.8 million (2019: £44.8 million), profit for the year was £7.8 million compared to £64.0 million for 2019.

Results for full year 2020 were impacted by the COVID-19 crisis, which caused unprecedented falls in both oil and gas prices, and also by a 45-day shut-down of the BKR fields early in the year to secure a damaged caisson on the Bruce platform. However, the combined effects of the BKR net cash flow sharing structure and Serica's gas price hedging programme mitigated the cash impact of each substantially. Net cash flow sharing payments under the BKR deals were significantly reduced in line with lower net cash income generated during the year. In addition, Serica's gas price hedging programme effectively fixed prices for approximately one third of retained gas sales for 2020 at approximately 39 pence per therm before system fees – well above market levels. This was of particular importance during H1 when market prices averaged below 20 pence per therm.

A particular and somewhat counterintuitive feature of the strong recovery in gas prices late in 2020 was that future liabilities, valued at 31 December on the basis of forward commodity prices, increased compared to the 30 June 2020 valuation with consequent impact upon the income statement during 2H 2020. These comprised estimates of the final year of BKR net cash flow sharing and also the valuation of our gas price hedging over 2021 and 2022. As Serica retains 60% of BKR net cash flows in 2021 and 100% thereafter, it stands to benefit substantially from increased cash flows arising from strong commodity prices and this will be reflected in 2021 cash flow and net income. Equally, as no more than 25% of Serica's projected retained gas production for any period is hedged, and currently none of its oil or other liquids, the Company will also benefit during 2021 and thereafter should actual commodity pricing prove to be as strong as the basis used for valuing those hedge instrument liabilities. Nonetheless, in view of recent and ongoing volatility in commodity markets the Company's strategy remains to protect commodity pricing for a proportion of its future production.

The overall impact of this volatile year was to deliver two distinct periods. In H1, production interruption and plummeting oil and gas prices led to net operating cash flow falling to breakeven levels though this was then boosted by realised hedging income and by reduced liability valuations at 30 June 2020. In H2, stronger production and strengthening commodity prices, particularly in Q4, led to greatly improved net operating cash though this was then offset by the increased year end liability provisions described above. Earnings before interest, tax, depreciation and exploration ("EBITDAX") in H1 were £9.6 million and in H2 were £30.4 million after adjustment for unrealised hedging losses.

Sales revenues

Total product sales volumes for the year comprised approximately 386.3 million therms of gas (2019: 491.3 million therms), 1,002,000 lifted barrels of oil (2019: 1,567,100 barrels) and 71,800 metric tonnes of NGLs (2019: 85,500 metric tonnes). Overall, this represented total 2020 product sales of 22,400 boe/d (2019: 29,300 boe/d) delivering total revenue of £125.6 million (2019: £250.5 million). This consisted of BKR revenues of £108.8 million (2019: £216.6 million) and Erskine revenues of £16.8 million (2019: £33.9 million). Average sales prices net of system fees were 21 pence per therm (2019: 31 pence per therm), US$42.4 per barrel (2019: US$61.4 per barrel) and £176 per metric tonne (2019: £266 per metric tonne) respectively giving a combined realised sales price for lifted volumes of approximately US$20 per barrel of oil equivalent (2019: US$30 per boe). This is before gas price hedging gains detailed below.

Gross loss

The gross loss for 2020 was £2.9 million compared to a gross profit of £85.8 million for 2019. Overall cost of sales of £128.6 million compared to £164.7 million for 2019. This comprised £89.7 million of operating costs (2019: £105.1 million) and £38.5 million of non-cash depletion charges (2019: £52.6 million) plus a £0.3 million charge representing a reduction during the year of the opening liquids underlift position (2019: £7.0 million). Reductions in both operating costs and depletion charges reflected lower production volumes plus other operating cost savings, whilst depletion charges were further reduced by an increase in remaining field reserves. Operating costs comprise costs of production, processing, transportation and insurance and averaged approximately US$14.12 per boe (2019: US$12.6). An overall reduction in operating costs was achieved despite exceptional expenditures on Bruce caisson repairs and represented a reduction in underlying costs of some 10%. The increase in operating costs per barrel for the year reflected lower production volumes arising from the caisson shut-down whilst the fixed element of operating costs continued to be incurred and does not reflect an increase in the underlying trend.

Overall, despite the unprecedented fall in oil and gas sales prices and the loss of 45 days of BKR production, sales revenues for the year plus cash hedging gains covered cash operating costs for the year one and a half times over.

Operating loss before BKR fair value adjustment, net finance revenue, and tax

The operating loss for 2020 was £18.7 million compared to a profit of £87.7 million for 2019. This included £4.3 million of other expense from net commodity price hedging losses (2019: gain of £10.6 million). Realised hedging gains of £12.3 million (2019: £3.9 million) were more than offset by unrealised hedging losses of £16.6 million (2019: gains of £6.7 million). The unrealised losses reflected the surge in future gas prices at the close of 2020 and will only become fully realised should actual prices for 2021 and 2022 reach those levels. Overall, cash hedging gains realised during 2020 represented approximately US$3 per boe based upon retained volumes after adjustment for BKR cash flow sharing.

E&E asset write-offs of £3.7 million (2019: £0.1 million) principally represented the write-off of exploration costs following expiry of Serica's Namibian licence. Administrative expenses of £5.6 million compared to £6.0 million for 2019 whilst share-based payments were £1.9 million (2019: £1.1 million) and currency losses were £0.3 million (2019: £1.0 million) largely arising on US$ holdings.

Profit before taxation and profit for the year

Profit before taxation was £12.5 million (2019: £108.8 million) after a gain in the fair value of the BKR financial liability of £31.3 million (2019: £21.8 million) and negligible net finance costs (2019: £0.7 million). Net finance costs represent the discount unwind on decommissioning provisions less interest earned on cash deposits.

The fair value gain of £31.3 million arose following a downwards revision of the fair value of the balance sheet financial liability relating to consideration projected to be paid under the BKR agreements. The fair value of this liability is re-assessed at each financial period end. The most significant factors behind the downward revision in fair value in the year are the impact of lower production volumes and realised gas pricing on net cash flow payments in respect of 2020.

The 2020 taxation charge of £4.8 million (2019: £44.8 million) solely comprised a non-cash deferred tax element. As the Company continues to benefit from accumulated losses carried forward from previous years it is not currently paying cash taxes. It is nonetheless required to make provision for deferred taxes in recognition of future periods when all losses have been utilised and cash payments will commence.

Overall, this generated a profit after taxation for 2020 of £7.8 million compared to a profit after taxation of £64.0 million for 2019.

Group Balance Sheet

The balance sheet at 31 December 2020 demonstrates Serica's resilience during this turbulent year. This has allowed the Company to fund its significant capital expenditures on Columbus development and Rhum R3 well work from its cash resources without recourse to borrowing and also to pay its maiden cash dividend of £8.0 million.

A reduction in exploration and evaluation assets from £3.7 million in 2019 to £1.0 million at 31 December 2020 reflected a £3.7 million write-off of past expenditures (including £3.5 million from Namibia) following licence relinquishment partially offset by £1.0 million of new expenditure on UK licences during 2020.

Total property, plant and equipment decreased from £325.4 million at year end 2019 to £311.1 million at 31 December 2020 after depletion charges for 2020 of £38.5 million (2019: £52.6 million), asset revisions of £1.1 million (2019: £0.6 million) and other charges of £0.2 million (2019: £0.2 million) partly offset by capital expenditure on Columbus and Rhum during 2020 of £25.5 million (2019: Columbus £4.5 million, other £0.2 million). Depletion charges represent the allocation of field capital costs over the estimated producing life of each field and principally comprise costs of asset acquisitions.

An inventories balance of £4.6 million at 31 December 2020 showed little change from £4.7 million at the end of 2019. An increase in trade and other receivables from £35.9 million at the end of 2019 to £41.3 million at 31 December 2020 largely reflected higher prices for December gas sales plus increased capital expenditure amounts recoverable from field partners. The derivative financial asset of £6.9 million at year end 2019 had become a derivative financial liability of £9.7 million at 31 December 2020. This represents the valuation of gas price hedges in place at the respective year ends and the consequent amounts projected to be either due or payable based upon futures pricing prevailing at those points. Year end 2020 reflected particularly strong futures pricing which, should it be realised, would deliver greatly increased gas sales revenues during 2021 and 2022.

The reduction in cash balances from £101.8 million at 31 December 2019 to £89.3 million at 31 December 2020 reflected cash flow from operations offset by both the significant capital expenditures of £25.5 million and also the payment of a £8.0 million dividend during the year.

The increase in current trade and other payables to £31.1 million at 31 December 2020 from £24.6 million at the end of 2019 arose largely due to a high level of accruals related to the Rhum R3 well work.

A final cash dividend for 2019 of 3 pence per share (2018: nil) was proposed in April 2020 and approved at the annual general meeting on 25 June 2020. The dividend was paid in July 2020.

Current financial liabilities of £53.6 million (31 December 2019: £45.4 million) and non-current financial liabilities of £48.8 million (31 December 2019: £110.1 million) comprise total remaining amounts projected to be paid under the BKR acquisition agreements.

The current liability comprises amounts estimated to fall due over the final twelve months of the net cash flow sharing arrangements, a fixed payment of £16 million contingent upon the outcome of the Rhum R3 well work and contingent consideration in respect of Rhum field performance during 2021. Amounts due under the net cash flow sharing arrangements are based on forward projections of production volumes and sales prices. Subsequent payments will be calculated on volumes and prices actually achieved in 2021. The non-current liability comprises deferred consideration in respect of BKR decommissioning and oil linefill. Under arrangements for those BKR field interests acquired from BP, Total E&P and BHP, decommissioning liabilities were retained by the vendors with Serica liable to pay deferred consideration equivalent to 30% of the actual costs of decommissioning net of tax recovered by them.

The overall reduction in financial liabilities of £53.1 million during 2020 comprised cash amounts of £21.8 million paid in the period and £31.3 million released through the income statement. This release arose due to lower than previously forecast net cash flow sharing payments in respect of 2020 partially offset by a re-assessment of the estimated fair value of projected remaining payments as at 31 December 2020.

Non-current provisions of £22.8 million have been made in respect of decommissioning liabilities for the Bruce and Keith interests acquired from Marubeni (31 December 2019: £22.6 million). These were not subject to the same deferred consideration arrangements as applied for those field interests acquired from BP, Total E&P and BHP described above. No provision is included for decommissioning liabilities related to the Erskine facilities as these liabilities are retained by BP up to a cap which is not projected to be exceeded.

The deferred tax liability of £80.6 million at 31 December 2020 has increased from £75.8 million at year end 2019 and reflects accounting provisions expected to be released against future tax charges once the Group's tax losses have been fully utilised.

Overall, net assets have increased from £198.0 million at year end 2019 to £199.8 million at 31 December 2020 after payment of £8.0 in dividends.

The increase in share capital from £181.4 million to £181.6 million arose from shares issued following the exercise of share options and shares issued under an employee share scheme, whilst the increase in other reserves from £17.8 million to £19.7 million arose from share-based payments related to share option awards.

Cash Balances and Future Commitments

Current cash position and price hedging

At 31 December 2020 the Group held cash and cash equivalents of £89.3 million (2019: £101.8 million). This is after capital investments during the year of £26.6 million and dividend payments of £8.0 million plus monthly net cash flow sharing payments and other BKR consideration totalling £11.4 million and £10.4 million respectively. Amounts due under the net cash flow sharing arrangements have fallen from 50% of BKR net operating cash flows for 2019 to 40% for 2020. This leaves one more year of payments at 40% and then zero thereafter. The £12.1 million of total cash and cash equivalents held in a restricted account against letters of credit issued in respect of certain decommissioning liabilities as at 31 December 2020 (2019: £12.1 million) was reduced to £6.4 million effective 1 January 2021 due to an upgrade in reserves and further extension of BKR field life.

At 31 December 2020 Serica held gas price swaps covering 167,000 therms per day for H1 2021 and 192,000 therms per day for H2 2021 at average prices of 37 pence per therm and 36 pence per therm respectively. It further held gas price swaps covering 200,000 therms per day for H1 2022 and 50,000 therms per day for H2 2022 at average prices of 40 pence per therm and 37 pence per therm respectively. At 31 December 2020 a cash margin call of £1.8 million had been paid to a hedge counterparty as security against settlement of future hedge instruments (2019: nil).

In 2021 to date, Serica has obtained additional gas price swaps covering 50,000 therms per day for H1 2022, 100,000 therms per day for H2 2022 and 50,000 therms per day for Q1 2023 at average prices of 46, 41 and 50 pence per therm respectively.

Following onset of the COVID-19 crisis in March last year, cash projections were run to examine the potential impact of extended low oil and gas prices as well as possible production interruptions and the situation was kept under review thereafter. Some 80% of Serica's production is gas with exposure to price falls partially mitigated by price hedging now extending up to Q1 2023. The BKR net cash flow sharing arrangements and structuring of elements of Rhum deferred consideration further mitigate the impact of low sales prices and any production interruptions upon net income to end 2021. This allied to the fact that Serica currently has substantial cash resources, no borrowings and relatively low operating costs per boe means that the Company is well placed to withstand such risks and its capital commitments can be funded from existing cash resources.

Field and other capital commitments

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

There are no significant existing capital commitments on the BKR producing fields other than an estimated £11 million net to Serica outstanding at 31 December 2020 on the Rhum R3 well work, expected to be completed during Q2 2021. Potential further programmes to enhance current production profiles and extend field life are under consideration. Net revenues from Serica's share of income from the BKR fields, after net cash flow sharing payments, is expected to cover Serica's retained share of ongoing field expenditures as well as other contingent or deferred consideration due under the respective BKR acquisition agreements set out below.

The Columbus development is underway with first gas expected in Q4 2021. Total development expenditure net to Serica's share outstanding at 31 December 2020 is estimated at approximately £15 million.

The Group has no significant exploration commitments apart from a well on the North Eigg prospect to be drilled within three years of the 1 January 2020 licence award.

BKR asset acquisitions

On 30 November 2018 Serica completed the four BKR acquisitions. The following elements of consideration were outstanding at 31 December 2020:

- A contingent payment of £16.0 million is due to BP Exploration Operating Company ("BPEOC") upon bringing the Rhum R3 well onto production and achieving a minimum cumulative 90 days of gas production at a defined level.

- A contingent payment of up to £7.7 million is due to BPEOC based upon Rhum 2021 average field production and commodity sales prices in the year. The payment made in respect of 2019 was £2.6 million whilst the payment calculated in respect of 2020 and made in Q1 2021 was £1.0 million. There will be a final calculation of the combined average performance covering years 2019 to 2021 and applied to the total potential consideration for the three years of up to £23.1 million. Any difference between this calculation and cumulative payments to-date will then be settled.
- In addition, Serica will pay contingent cash consideration to BPEOC, Total E&P and BHP calculated as 40% of 2021 net cash flows resulting from the respective field interests acquired from those companies. Such amounts will be paid by Serica pre-tax on a monthly basis and then offset by Serica against its own tax liabilities.
- BP, Total E&P and BHP will retain liability, in respect of the field interests Serica acquired from each of them, for all the costs of decommissioning those facilities that existed at the date of completion. Serica will pay deferred consideration equal to 30% of actual future decommissioning costs, reduced by the tax relief that each of BP, Total E&P and BHP receives on such costs. Staged prepayments against such projected amounts will commence in 2022 and be spread over the remaining years before cessation of field production.
- Serica will pay to each of BP, Total E&P and BHP, deferred consideration equal to 90% of their respective shares of the realised value of oil in the Bruce pipeline at the end of field life.

Other

Asset values and impairment

At 31 December 2020, Serica's market capitalisation stood at £308.0 million based upon a share price of 115 pence which exceeded the net asset value of £199.8 million. By 13 April the Company's market capitalisation has risen to £320.5 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 retain a broad portfolio of assets with varied risk/reward profiles, to apply prudent industry practice, to carry insurance, where both available and cost effective, and to retain adequate working capital.

Following completion of the four BKR acquisitions in 2018, Serica has built a strong working capital reserve. This is available to respond to a range of risks including production interruptions, severe commodity price falls and unexpected costs. To supplement this the Company carries business interruption insurance to mitigate the impact of deferred or lost revenues 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 and will continue to seek cost effective opportunities to add to its existing hedge position. These currently cover up to 25% of the Company's retained share of projected 2021 and 2022 gas production.

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

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

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

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

Risk	Mitigation
Production may be interrupted generating significant revenue loss whilst costs continue to be incurred	• The Company seeks to diversify its revenue streams • Management determines and retains an appropriate level of working capital • Business interruption cover is carried when cost effective
Third party offtake routes may experience restrictions or interruptions and full availability may depend upon sustained production from other fields in the system	• The Group aims to diversify its exposure to offtake routes where possible though all of its oil production currently uses the FPS system • The Group carries business interruption cover

The Company is reliant upon its IT systems to maintain operations and communications	• The Group employs specialist support • Protection against external intrusion is incorporated within the system and tested regularly

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

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

Political and commercial environment: World share and commodity markets and political environments continue to be volatile

Risk	Mitigation
Sanctions imposed by the U.S. government may threaten continuing production from the Rhum field and licences are required to be renewed periodically	• An OFAC License has been obtained which has enabled continuing production from Rhum • Serica initiates the renewal process well in advance of the specified date
The UKCS licensing regime under which Serica's operational rights and obligations are defined may be subject to future change	• Management maintains regular communication with regulatory authorities • The Company aligns its standards and objectives with government policies as closely as possible
Volatile commodity prices mean that the Group cannot be certain of the future sales value of its products	• Planning and forecasting considers downside price scenarios • Oil and gas floor price hedging may be utilised where deemed cost effective • Price mitigation strategies may be employed at the point of major capital commitment

COVID-19: The impact of the virus has significantly affected the majority of global activities and markets. The full extent and duration of the crisis remains uncertain

Risk	Mitigation
The Company's personnel may be at risk from catching the virus	• The Company has instituted recommended safe practices and will maintain these as necessary • Serica has instituted a programme of working from home where feasible and temporarily closed its London and Aberdeen offices
The spread of infection and associated counter measures may interrupt offshore operations	• The Company has reduced the number of staff working offshore to a safe minimum • Management encourages safe practices travelling to and from the platform and mandates additional precautions whilst offshore
The continued operation of Serica's fields may be adversely affected by interruptions to operations of fields and infrastructure downstream	• Serica carries a working capital reserve to cover such eventualities • Serica works with the regulatory bodies and infrastructure owners to identify and mitigate any such risks

ESG strategy and risk management

Details of ESG strategies directed towards reducing carbon emissions and contributing to government Net Zero targets are described on page 12 and also in a separate ESG Report which will be issued in conjunction with publication of the 2020 Annual Report.

Serica has reviewed guidance issued by the Task Force on Climate-related Financial Disclosures ("TCFD") with regard to the identification, management and reporting of climate-related financial risks. The Company is in the process of developing its capabilities to report under TCFD guidance.

Management considers climate-related strategic and financial risks in both its existing asset portfolio and future business growth including potential acquisitions. This includes consideration of the potential impact of both transition and physical risks.

Key Performance Indicators ("KPIs")

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

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

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

HSE performance is tracked through the following KPI's whose progress is covered within the ESG Report to be issued along with the 2020 Annual Report:

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

ESG performance is tracked through the following KPI's whose progress is covered within the ESG Report to be issued along with the 2020 Annual Report:

- Carbon intensity
- Flare volumes
- Workforce engagement in ESG
- Waste volumes generated
- Diversity of personnel

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

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

Further information upon the Company's HSE and ESG policies and delivery can be found in an updated ESG Report which will be issued along with the 2020 Annual Report.

Section 172 statement

The Directors' statement under Section 172 of the Companies Act 2006 is included on pages 44 and 45.

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

14 April 2021

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.

Antony Craven Walker

Executive Chairman
Appointed: 2004

Antony Craven Walker, Executive Chairman, started his career with BP in 1966 and has been a leading figure in the British independent oil industry since the early 1970s. Mr Craven Walker founded two British independent oil companies, Charterhouse Petroleum, where he held the post of Chief Executive, and Monument Oil and Gas, where he held the post of Chief Executive and later became Chairman. Mr Craven Walker was also a founder member of BRINDEX (Association of British Independent Oil Exploration Companies). Mr Craven Walker was appointed non-executive Chairman of the Company in 2004 and following the retirement of the then Chief Executive in April 2011, initially acted as interim Chief Executive. With effect from 1 June 2015, he took the role of Executive Chairman following the departure of two Executive Directors. Under his direction the Company embarked upon its strategy to refocus on the North Sea and build a strong production base. Mr Craven Walker's experience in the oil and gas and public market sectors gives him the skills necessary to provide the services of Executive Chairman as the Company continues to develop its business strategy.

COMMITTEES Nomination & Corporate Governance Committee

Mitch Flegg

Chief Executive Officer
Appointed: 2017

Mitch Flegg, Chief Executive Officer has over 35 years of experience in the upstream oil and gas industry, including positions at Shell and Enterprise Oil. Mr Flegg first joined the Company in 2006 and was responsible for all drilling and development operations. He was promoted to the position of Chief Operating Officer in March 2011 and appointed to the Board in September 2012. Mr Flegg left the Company in May 2015 to become CEO of Circle Oil Plc. Mr Flegg re-joined the Board on 21 November 2017 as Chief Executive Officer on the announcement of the BKR transaction. Mr Flegg's background and experience ensures that the Company is effectively led to achieve the Company's long-term strategic goals and becomes a leading producer and operator.

COMMITTEES Reserves Committee, Health Safety & Environmental Committee

Neil Pike

Non-Executive Director and Senior Independent Director
Appointed: 2004

Neil Pike, the Senior Independent Non-Executive Director joined the Company as a director in 2004. Mr Pike has been involved in the global petroleum business as a financier since joining the energy department at Citibank in 1975. Mr Pike remained an industry specialist with Citibank throughout his career until he joined the Company and was closely involved in the development of specialised oil field finance. Latterly he was responsible for Citibank's relationships with the oil and gas industry worldwide. Mr Pike with his financial background provides the experience required as chairman of the Audit Committee to challenge the business internally and also the Group's auditors.

COMMITTEES Audit Committee (Chair), Remuneration Committee, Nomination & Corporate Governance Committee

Good governance depends on strong and effective leadership and a healthy corporate culture.

Kate Coppinger

Non-Executive Director
Appointed: April 2020

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

COMMITTEES Audit Committee

Trevor Garlick

Non-Executive Director
Appointed: 2018

Trevor William Garlick, Non-Executive Director, joined the Board on 30 November 2018, on completion of the BKR transaction. Mr Garlick spent most of his career in BP where he worked for 30 years, latterly as Regional President of UK / Norway from 2010 until retirement in 2016. Mr Garlick is a director of Opportunity North East Limited (O.N.E Energy Chair) and Vice-Chair of the Oil & Gas Technology Centre – OGTC. He chairs the Company's Health, Safety and Environmental Committee and the Reserves Committee.

COMMITTEES Health Safety & Environmental Committee (Chair), Reserves Committee (Chair) and Audit Committee

Ian Vann

Non-Executive Director
Appointed: 2007

Ian Vann, Non-Executive Director, joined the Board in 2007. Mr Vann was employed by BP from 1976 and directed and led BP's global exploration efforts from 1996 until his retirement in January 2007. Mr Vann was appointed to the executive leadership team of the Exploration & Production Division of BP in 2001, initially as Group Vice President, Technology and later as Group Vice President, Exploration and Business Development. Mr Vann's industry background provides the Board with the necessary expertise to review and challenge decisions and opportunities presented both within the formal arena of the boardroom and as called upon when needed by the executives. Mr Vann chairs the Company's Remuneration Committee.

COMMITTEES Remuneration Committee (Chair), Health Safety & Environmental Committee, Audit Committee and Reserves Committee

Malcolm Webb

Non-Executive Director
Appointed: 2018

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

COMMITTEES Nomination & Corporate Governance Committee (Chair) and Remuneration Committee

The Directors of the Company present their report and the Group financial statements of Serica Energy plc ("Serica" or the "Company") for the year ended 31 December 2020.

Principal Activities

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

Business Review and Future Developments

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

Employee Engagement

Information regarding Serica's engagement with employees is included in the Directors' statement under Section 172 of the Companies Act 2006 on pages 44 and 45.

Results and Dividends

The profit for the year was £7,779,000 (2019: £64,020,000).

The Directors are recommending the payment of a final dividend by the Company of 3.5 pence per share for the year to 31 December 2020, see note 13 (2019: 3 pence per share).

Financial Instruments

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

Events Since Balance Sheet Date

Events since the balance sheet date are included in Note 31.

Directors and their Interests

The following Directors have held office in the Company since 1 January 2020 to the date of this report:

Antony Craven Walker
Neil Pike
Ian Vann
Mitch Flegg
Trevor Garlick
Malcolm Webb
Kate Coppinger (appointed 22 April 2020)

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

	Class of share	Interest at end of year	Interest at start of year (or date of appointment if later)
Antony Craven Walker[1]	Ordinary	7,357,694	7,357,694
Neil Pike[2]	Ordinary	320,000	505,000
Ian Vann	Ordinary	267,935	267,935
Mitch Flegg	Ordinary	184,445	184,445
Malcolm Webb	Ordinary	64,506	44,681
Trevor Garlick	Ordinary	–	–
Kate Coppinger	Ordinary	–	–

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

2. 190,000 ordinary shares were held by Romayne Pike in her ISA.

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

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

Details of share awards that have been granted to certain Directors under the Serica Energy plc Share Option Plan 2005 ("Serica 2005 Option Plan") are included in note 27 to the Financial Statements. Details of share awards made during 2020 and up to 13 April 2021 under the Serica Energy plc Long Term Incentive Plan (the "LTIP") are also included in note 27.

Greenhouse Gas Emissions ("GHG")

As part of our GRI reporting, we provide a detailed data book of our Scope 1 emissions for 2020 compared to 2019 in our 2020 ESG report, which will be released with our published annual report. The Company does not own any vehicles and so our Scope 1 emissions are those generated by the Serica operated Bruce facilities to provide power and compression to produce and export oil and gas from the Bruce, Keith and Rhum fields. This includes fuel gas usage, diesel, flared and vented gas. The Bruce facilities qualified for the EU Emissions Trading Scheme and so our emissions are reported, audited and verified based on this scheme. In 2020 our EUETS emissions were 214,425 tonnes of CO_2, compared to 241,503 tonnes in 2019. Part of this reduction was down to our efforts to reduce our gas flaring which resulted in a 45% drop due to operational changes and equipment maintenance. Energy consumption on Bruce in 2020 was around 950 GWh compared to 1,120 GWh in 2019. Carbon intensity, which is CO_2 emissions divided by production, increased slightly due to lower production volumes in 2020 when the platform was shut in for 45 days. Carbon intensity was 18.3 kg CO_2/boe in 2020 compared to 16.7 kg CO_2/boe in 2019. The carbon intensity target for 2021 is 17.0 kg CO_2/boe.

As well as flare reduction, other initiatives to reduce our emissions on Bruce included energy efficiency assessment surveys offshore, the formation of a multi-disciplinary emissions reduction group, greater monitoring of flare and fuel usage, technology assessments and changes to our supply chain processes.

Our electricity usage in our Aberdeen operations headquarters reduced by 35% in 2020 due to remote working necessitated by COVID-19 restrictions, 13,476 kg of CO_2e for 2020 compared to 20,667 kg in 2019. Our London office emissions were 2,578kg of CO_2e compared to 4,210 kg in 2019, a 40% reduction. CO_2e was calculated using the UK Government GHG Conversion Factors for Company Reporting for 2020 issued by BEIS and DEFRA.The 2020 ESG report will provide more detail on our emission reduction activities and statistics as well as our plans for 2021.

Auditor

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

Disclosure of information to auditors

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

On behalf of the Board

Mitch Flegg
Director

14 April 2021

CORPORATE GOVERNANCE STATEMENT

Chairman's Corporate Governance Statement:

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

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

2020 has been a particularly challenging year, with the COVID-19 pandemic having an impact on economies and businesses across the globe. The importance of a united Board working to ensure that the Company continues to deliver for its shareholders whilst maintaining high standards of employee welfare, safety, corporate governance and commitment to environmental issues is imperative to the continuing success of the business.

The importance of maintaining strong relationships and engaging with our shareholders continues and underpins the success of the business. The Board strives to ensure that there are numerous opportunities for investors to engage with both the Board and Executive Directors. Due to COVID-19 the Company's 2020 Annual General Meeting was held as a closed meeting and shareholders were encouraged to ask questions via the online Q&A session following the meeting. The Executive Directors were available to meet with shareholders and analysts on-line following the Company's interim and final results.

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

Principles	Serica Response
Establish a strategy and business model which promote long-term value for shareholders	The Company operates in a sector that is exposed to political, operational, commercial, product pricing and hazard risks. Its strategy is to manage risks, financial capacity and growth opportunities through an active programme of acquisition and divestment to balance risk and potential whilst optimising operating costs and procedures to improve performance and identifying new technologies that can enhance value. The Company seeks a forward looking, professional and safety conscious culture in all that it does to provide an environment for the benefit of all stakeholders.
Seek to understand and meet shareholder needs and expectations.	The Company engages with shareholders at the Annual General Meeting and after the announcements of interim and final results. It also regularly presents at investor events. During 2020, the Company engaged as best as possible with stakeholders through online forums.
Take into account wider stakeholder and social responsibilities and their implications for long-term success	The Company seeks to be a responsible corporate citizen in all its areas of operation and is committed to maintaining a high standard of corporate governance. The Company publishes an Environmental, Social and Governance Report. There are also further details on pages 12 and 13 of this report.
Embed effective risk management, considering both opportunities and threats, throughout the organisation	The Company has an effective risk management framework, which is subject to oversight by the Audit Committee. See further details on page 38.
Maintain the Board as a well-functioning balanced team led by the Chair	Refer to further discussion of the Board structure and composition on page 34.
Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	The complementary skills and experience of our Board and Executive Management team are included on pages 28 and 29.
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Refer to discussion of Board evaluation on page 35.
Promote a corporate culture that is based on ethical values and behaviours	The Company has a zero-tolerance approach to bribery and corruption and has an Anti-Bribery Policy in place to protect the Company, its employees and those third parties with which the business engages. Employees have each partaken in Anti-Bribery training and assessment.
Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	Refer to further discussion of the Company's governance structures, including matters reserved for the Board, on page 35.
Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	The Company's financial and operational performance is summarised in the Annual Report and the Interim Report, with regular updates provided to stakeholders in other forums through the year, including press releases and regular updates to the Company's website.

CORPORATE GOVERNANCE FRAMEWORK

Governance Structure

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

The Board retains ultimate accountability for good governance and maintains full and effective control over the Company. The Company holds regular Board meetings at which financial, operational and other reports are considered and, where appropriate, voted on. The Board is responsible for the Group's strategy, performance, key financial and compliance issues, approval of any major capital expenditure and the framework of internal controls.

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to executive management. The Board is responsible for monitoring the activities of the executive management. The Board has five independent Non-Executive Directors to bring an independent view to the Board one of whom (Neil Pike) acts as Senior Independent Director. The Chairman has the responsibility of ensuring that the Board discharges its responsibilities and is also responsible for facilitating full and constructive contributions from each member of the Board in determination of the Group's strategy and overall commercial objectives. In the event of an equality of votes at a meeting of the Board, the Chairman has a second or casting vote.

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

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

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

Board Composition

As at 31 December 2020, the Board of the Company consisted of the Executive Chairman, the Chief Executive Officer and five independent Non-Executive Directors. Neil Pike, as the senior independent Non-Executive director, along with the other Non-Executive Directors ensure the Board independence required given the Company has an Executive Chairman. All the Non-Executive Directors are independent in character and judgement and have the range of experience and calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group.

The Board believes that there is an adequate balance between the Non-Executive and Executive Directors, both in number and in experience and expertise, to ensure that the Board operates independently of executive management.

Board Committees and Structure

The Board has five Committees as follows: Nomination & Corporate Governance Committee, Audit Committee, Reserves Committee, Health, Safety and Environmental Committee and Remuneration Committee. All Committees operate under clearly defined terms of reference to ensure proper functioning and effective application of best practice. Committees are required to report back to the Board following a Committee meeting.

More detailed information of each Committee can be found on pages 37 to 41.

Board Objectives/Activities

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

BOARD EVALUATION/REVIEW OF THE BOARD'S EFFECTIVENESS

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

It was recognised that, with the expansion of the Board in parallel with the expansion of the Company's activities and the need to meet the requirements of the QCA, a formal Board evaluation process was required. During 2020, the Company conducted a full formal Board evaluation. As part of the process, Directors were asked to evaluate the Board structure, dynamics and functioning, Corporate Governance and Internal Controls & Risk Management. The Board discussed the results in detail and have made some changes where deemed necessary, such as providing an increased focus on more strategic and risk-led matters in addition to important technical and operational matters during Board meetings and it was agreed that holding non-executive director meetings on a regular basis was an important part of the governance process.

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

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

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

The Board is mindful of the need for succession and diversity planning when making Board changes and is actively putting this in place with a new appointment already made in 2020 and further appointments expected to take place in parallel with Board retirements. The Nomination & Corporate Governance Committee regularly monitors the requirements for succession planning and Board appointments to ensure that the Board is fit for purpose and keeps pace with the evolution of the Company. If assistance with recruitment is required by the Committee, this will be made available.

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

Matters Reserved for the Board

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

Strategy and Management

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

Structure and Capital

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

Financial Reporting and Controls

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

Internal Controls

Ensuring maintenance of a sound system of internal control and risk management including regular risk review.

Finance

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

Contracts

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

Communications

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

Board membership and other appointments

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

Remuneration

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

Delegation of Authority

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

Corporate Governance Matters

Review of the Company's overall corporate governance arrangements.

Other

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

Directors' attendance at meetings

The Board generally has one scheduled Board meeting every month over the course of the financial year other than the month of December with informal discussions and additional Board meetings scheduled as required. From March – December 2020, all Board meetings were held virtually via video conference. Additional meetings are held depending upon opportunities or issues to be dealt with by the Company from time to time.

The Non-Executive Directors hold informal meetings during the course of the year at which members of management are not in attendance. As COVID-19 restrictions on meetings made it impossible for the Non-Executive Directors to meet in person during 2020 the Senior Independent Director instead held a series of telephone conference calls with Non-Executive Directors.

The Directors' attendance at Board meetings and Board committees during 2020 is detailed in the table below:

Director	Board	Audit	Remuneration	Nomination & Corporate Governance	HSE	Reserves
A Craven Walker (Chairman of the Board)	12*	3†	1†	3	–	–
N Pike	12	6*	4	3	–	–
I Vann	12	6	4*	–	4	1
M Flegg	12	2†	4†	1†	4	–
M Webb	12	–	4	3*	–	–
T Garlick	12	6	–	–	4*	1*
K Coppinger**	7	3	–	–	–	–
Total meetings	12	6	4	3	4	1

Notes:

The Chairman, Chief Executive Officer and Non-Executive Directors attended a number of meetings of Committees of which they were not members during the course of the year at the invitation of the Committee chairman.

* Chairman

† Invitee

** K Coppinger was appointed to the Board on 22 April 2020

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE REPORT

The Nomination and Corporate Governance Committee assists the Board in the oversight of Corporate Governance at Board level. In that regard the Company follows the Corporate Governance Code of the Quoted Companies Alliance, of which it is a member. The Committee is also responsible for monitoring the overall effectiveness of the Board and the appointment of new directors, together with succession planning for the Board.

The Committee's membership comprises Malcolm Webb (Non-Executive director and Committee Chairman), Neil Pike (Non-Executive director) and Antony Craven Walker (Executive Chairman of the Company).

The Committee met three times during 2020 and will meet at least three times during 2021.

Independence of Non-Executive Directors.

The Committee and the Board are satisfied that each Non-Executive director serving at the end of the year remains independent and continues to have sufficient time to discharge their responsibilities to the Company. Neil Pike and Ian Vann have each served on the Board for over ten years, standing for re-election annually. A process is in hand for succession planning as noted below.

2020 activities

The Committee continued to review succession planning and assisted in the appointment of Kate Coppinger to the Board as part of this ongoing process. It also organised a formal evaluation of the effectiveness of the Board and its Committees. The evaluation was conducted by confidential written questionnaires and relevant group meetings. The results and consequent changes are noted on page 35.

2021 looking forward

The Committee will continue to monitor and advise on Corporate Governance and pay particular attention to Board structure, diversity and succession planning and expects to see further Board changes consistent with these objectives as the Company's needs evolve.

Malcolm Webb
Chairman of the Nomination and Corporate Governance Committee

14 April 2021

AUDIT COMMITTEE REPORT

The Audit Committee is a standing committee of the Board and assists the Board's oversight of the integrity of the financial statements and other financial reporting, the independence and performance of the auditors, the regulation and risk profile of the Group and the review and approval of any related party transactions. The Committee may hold private sessions with management and with the external auditor without management present. The Committee is also responsible for overseeing the relationship with the external auditor.

An important part of the role of the Committee is its responsibility for reviewing and monitoring the effectiveness of the Group's financial reporting, internal control policies, and procedures for the identification, assessment and reporting of risk. The latter two areas are integral to the Group's core management processes and the Committee devotes significant time to their review.

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

The Audit Committee meets regularly and comprises Neil Pike (Non-Executive director and Committee Chairman, Ian Vann (Non-Executive director), Trevor Garlick (Non-Executive director) and Kate Coppinger (Non-Executive director).

2020 activities

The Committee continues to engage Ernst & Young (EY) to act as external auditors and they are also invited to attend the relevant Committee meetings, unless they have a conflict of interest.

- During the year, the Committee reviewed the Company's Treasury Policy, Dividend Policy, Hedging Strategy and Bank Credit ratings and the Company's risk management framework.
- The Committee engaged a specialist to provide an external review of the Company's existing systems of financial control which involved reviewing the Group's internal control and risk management policies and systems and their effectiveness. At this stage, the Committee is satisfied that the Group does not currently require an internal audit function, although this will be kept under review.
- The external auditors, EY, were re-appointed at the Company's annual general meeting. The Serica Group fee to EY for the financial year to 31 December 2020 is £340,000. The Audit Committee undertakes a comprehensive review of the quality, effectiveness, value and independence of the audit provided by EY each year.
- The Company declared and paid its maiden dividend to shareholders.

Whilst EY have been the Company's auditors for many years, the Committee are comfortable that EY's audit remains independent. The current audit partner has served the Company for 3 years.

2021 and beyond

The Committee, which so far has met twice in 2021 shall continue to work according to its Terms of Reference, and in particular

- Keep under review the Company's existing control framework.
- Ensure that risk management procedures and controls are appropriate.
- Continue to consider the recommendations of the Quoted Companies Alliance Corporate Governance Code, Audit Guide.
- Consider whether a dividend should be payable to shareholders.

Responsibilities

The Committee reviews and makes recommendations to the Board on all material financial decisions affecting the Company, including:

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

Neil Pike
Chairman of the Audit Committee

14 April 2021

RESERVES COMMITTEE REPORT

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

The Committee comprises of Trevor Garlick (Non-Executive director and Committee Chairman), Ian Vann (Non-Executive director and previous chairman of the Committee) and Mitch Flegg (Chief Executive Officer of the Company). The Committee met once in 2020 and typically meets once a year prior to publication of the annual results.

2020 activities

- Reviewed the Company's procedures for providing information to the qualified reserves auditor who reported on reserves data.
- Met with management and the qualified reserves auditor to review the reserves data and the auditor's annual reserves report.
- Engaged another UK-based reserves auditor RISC Advisory (as the previous auditor Lloyds Register stopped offering this service to the industry).
- Reviewed and recommended to the Board approval of the content and filing of the Company's annual statement of reserves data and other oil and gas information.

2021 Looking Forward

- Meet with the new reserves auditor and review end 2020 reserve revisions and booking.
- Make a recommendation to the Board (via the Audit Committee) regarding the Company's annual statement of reserves data and other oil and gas information.

Trevor Garlick
Chairman of the Reserves Committee

14 April 2021

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE REPORT

The Health, Safety and Environmental Committee provides assurance to the Board on occupational health, safety and environmental leadership. It is primarily focused on ensuring that HSE policies are adopted and applied across the Group. Since Q4 2020, the Committee has been asked to add Environmental, Social and Governance (ESG) assurance into their remit.

The Committee comprises of Trevor Garlick (Non-Executive director and Committee Chairman), Ian Vann (Non-Executive director and previous chairman of the Committee) and Mitch Flegg (Chief Executive Officer of the Company). The VP Operations is invited to attend the meeting and present his report. Since Q4, the VP of ESG and Business Innovation has also attended the meetings to present her report.

During 2020, the Committee has met quarterly to discuss matters pertaining to Health, Safety and Environmental issues which were complicated and at times dominated by the increasing threat of COVID-19 amongst the workforce. In addition, the Committee focused all the Company's operations, ensuring that adequate HSE policies are adopted and applied across the Group and the Safety Leadership of both Management and the workforce is visible and impactful.

2020 activities

- Evaluated HSE performance against industry standards and acted on Regulator feedback.
- Monitored interactions with the HSE inspector and ensured that the relationship with the Regulator is constructive and responsive.
- Established and monitored delivery of HSE performance against the HSE and Risk Management Plan at each meeting.
- Monitored HSE performance via both leading and lagging indicators.
- Reviewed major and reportable HSE incidents that occurred, investigations and lessons learned at each meeting.
- Ensured that the Operations Team has tested its emergency response and crisis management.
- Strengthened work force engagement and ownership of the design and delivery of the HSE plan.
- Since Q4 of the year, added ESG as an agenda item focusing in particular on the Company's environmental footprint and plans to contribute to the decarbonisation and energy transition of the North Sea industry.
- Agreed HSE performance metrics linked to the Company bonus scheme.

2021 looking forward

During 2021, the Committee plans to continue to review the on-going HSE procedures and culture, evaluate HSE performance against industry standards, evaluate performance against the internal 2021 plan, agree a HSE bonus scorecard for 2021 to be linked to the Company bonus scheme for 2021 and ensure that the HSE policy and procedures remain effective. The Committee also plans to place a greater focus on ESG and how the Company can plan to reduce carbon intensity and emissions.

"The management and workforce of the Group have operated in a very difficult onshore and offshore environment. They have rapidly put in place new policies to minimise the risk of COVID-19 infection at all sites. This has been successful to date in preventing transmission at work. Within this context, which includes the onshore staff working from home and reduced crew sizes offshore, they have also achieved lower carbon emissions, maintained the focus on plant integrity, planned some complex operations and recorded a year of injury-free operations. There is always much to do and we cannot become complacent.

The ownership that is being demonstrated across the staff to make a personal impact on H,S and particularly E matters is making a difference. We will support the whole team in continuing to build this commitment as the Company expands its operations, recognising the risk that the pandemic still presents".

Trevor Garlick
Chairman of the Health, Safety and Environmental Committee

14 April 2021

DIRECTORS' REMUNERATION REPORT

The Remuneration Committee

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

The Committee comprises Ian Vann (Non-Executive Director and Committee Chairman), Neil Pike (Non-Executive Director) and Malcolm Webb (Non-Executive Director). The Committee met four times in 2020 and proposes to meet at least twice during the next financial year. In addition, written resolutions of the Committee are passed from time to time particularly in relation to routine matters such as the allotment of shares pursuant to share option exercises as well as to record formally decisions of the Committee reached outside the scheduled meetings.

Consideration by the Directors of matters relating to Directors' remuneration

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

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

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

2020 activities

The Committee:

- Approved the level of both the 2019 cash bonus and discretionary bonus.
- Agreed the targets for the 2020 cash bonus scheme.
- Agreed the 2020 employee salary increases.
- Approved the grant of Long Term Incentive Plan (LTIP) awards for 2020.
- Concluded that dividend accrual payments should be applied to all Long Term Incentive Plan awards.
- Approved the vesting of performance awards granted in May 2018.

2021 looking forward

- Reviewing and agreeing the cash bonus to be awarded to employees in respect of the financial year 2020.
- Considering and agreeing any discretionary bonuses to be awarded to senior management.
- Considering and agreeing a programme for the grant of any LTIP awards for 2021.
- Proposing and agreeing the remuneration packages for Executive Directors and advising the Board on the remuneration of Non-executive Directors for 2021.
- Reviewing and agreeing salary proposals for all employees.
- Considering a Share Save scheme for 2021.
- Agreeing a framework for the cash bonus plan 2021.

Executive Directors' service contracts

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

Director	Effective term	Notice period
Antony Craven Walker	1 July 2015	6 months from Executive 12 months from Company
Mitch Flegg	21 November 2017	6 months from Executive 12 months from Company

Executive Remuneration

The table below sets out the single total figure of remuneration and breakdown for each Executive Director paid for the 2020 financial year.

	Anthony Craven Walker	Mitch Flegg
Salary	£400,000	£400,000
Annual Bonus	£80,000	£80,000
Benefits	£4,913	£522
Pension	Nil	£40,000
Total	**£484,913**	**£520,522**

Mr Craven Walker has waived his entitlement to Illness and Medical Insurance, pension contribution and participation in the SIP.

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

Additional Details

Share Option Plans

The Company operates three discretionary incentive share option plans: (i) 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, (ii) the 2017 Serica Energy plc Company Share Option Plan ("2017 CSOP"), which was adopted by the Board on 20 November 2017, and (iii) 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 and employees of the Group. The Directors intend that the maximum number of ordinary shares which may be utilised across all of the Company's share option 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 the Discretionary Plans is to develop the interest of Directors, officers and employees 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

Director options outstanding at 31 December 2020 under the Serica 2005 Option Plan are detailed below:

Director/Employees	Total number of shares granted
Antony Craven Walker	2,500,000
Mitch Flegg	–
	2,500,000

Following the approval of the Company's 3p per share dividend to shareholders in 2020, dividend accrual amounts of 63,451 LTIP scheme interests (nil cost) were granted in relation to the 2,500,000 Serica 2005 Option Plan awards that had fully vested. These 63,451 LTIP scheme interests were outstanding at 31 December 2020.

Long Term Incentive Plan

The following awards have been granted to Directors under the LTIP, these were deemed to be granted in November 2017 under IFRS 2 in accordance with the 30 November 2017 Admission Document:

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. These awards vested on 31 January 2019 and were not subject to performance conditions; however, they were conditional on completion of the BKR Acquisition, subject to the Board determining otherwise.

Director	Total number of shares granted subject to Deferred Bonus Share Awards
Antony Craven Walker	225,000
Mitch Flegg	225,000
	450,000

Following the Company's 3p per share dividend to shareholders in 2020, dividend accrual amounts of 5,710 LTIP scheme interests (nil cost) were granted to both Mr Craven Walker and Mr Flegg in relation to their respective 225,000 DSA Plan awards that had fully vested. The combined figure of 461,420 LTIP scheme interests were outstanding at 31 December 2020.

Performance Share Awards were granted in 2018, 2019 and 2020, these awards are subject to different vesting criteria based on absolute share price performance over a three-year period. The targets in respect of the 2018 Performance Share Awards were met and vested in full on 1 December 2020. All Performance Share Awards are structured as nil-cost options and may be exercised up until the tenth anniversary of the date of grant.

Director	Total number of shares granted subject to Performance Share Awards		
	2020	2019	2018 (vested in full)
Antony Craven Walker	**386,100**	411,067	1,500,000
Mitch Flegg	**386,100**	411,067	1,500,000
	772,200	822,134	3,000,000

Following the Company's 3p per share dividend to shareholders in 2020, dividend accrual amounts of 38,071 LTIP scheme interests (nil cost) were granted to both Mr Craven Walker and Mr Flegg in relation to their respective 1,500,000 PSA Plan awards that had fully vested on 30 November 2020. The combined figure of 3,076,142 fully vested LTIP scheme interests were outstanding at 31 December 2020.

Non-Executive Directors

2020 Non-Executive Director fees

Non-Executive Directors	Chair/Director Fees (£)*	Committee Chairman Fees (£)
Neil Pike	40,000	10,000
Ian Vann	40,000	10,000
Malcolm Webb	40,000	10,000
Trevor Garlick	40,000	10,000
Kate Coppinger	27,744	–

Kate Coppinger was appointed on 22 April 2020 and the Director Fee for 2020 is a pro-rata figure of the base annual fee of £40,000.

* These fees have remained unchanged for several years. With effect from 1 January 2021 they have been increased to £50,000 per annum in line with the Group's expansion and with market comparatives and in order to ensure that the Company can provide an appropriate fee compensation to new directors appointed to the Board under the Company's succession plans.

Ian Vann
Remuneration Committee Chairman

14 April 2021

On behalf of the Board

AMBA Secretaries Limited

14 April 2021

DIRECTORS' STATEMENT UNDER SECTION 172 (1) OF THE COMPANIES ACT 2006

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

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

a) the likely consequences of any decision in the long term,

b) the interests of the Company's employees,

c) the need to foster the Company's business relationship with suppliers, customers and others,

d) the impact of the Company's operations on the community and environment,

e) the desirability of the Company maintaining a reputation for high standards of business conduct, and

f) the need to act fairly as between members of the Company.

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

Employees

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

We ensure that:

- Health, Safety and the Environment are considered paramount throughout the organisation
- Annual pay and benefit reviews are carried out to determine whether all levels of employees are benefitting fairly and to retain and encourage skills vital for the business
- There is competitive pay and employee benefits
- There is ongoing necessary training and development and career prospects available
- There are freely available company policies and procedures
- Staff engagement surveys are conducted
- Personal development reviews and work appraisals are conducted
- Employees are informed of the results and important business decisions and are encouraged to feel engaged and to improve their potential
- Working conditions are favourable.

Engagement during 2020 has been paramount due to the COVID-19 pandemic. The Company has worked to ensure that employees are safe and well, both physically and mentally, COVID-19 testing had been conducted both on-shore and off-shore for those employees who are not able to work from home. Well-Being workshops were arranged and the majority of staff have worked remotely during the year.

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

Suppliers, Customers and Regulatory Authorities

The Board acknowledges that a strong business relationship with suppliers and customers is a vital part of growth. Whilst day to day business operations are delegated to the executive management, the Board sets directions with regard to new business ventures. The Board upholds ethical business behaviour across all of the Company's activities and encourages management to seek comparable business practices from all suppliers and customers doing business with the Company. We value the feedback we receive from our stakeholders and we take every opportunity to ensure that where possible their wishes are duly considered.

Community and Environment

The Board periodically reviews the Health and Safety measures implemented by the Health, Safety and Environmental Committee in the business premises and improvements are recommended for better practices. The Company recognises and is aware of the potential impact that it may have on the environment.

Maintaining High Standards of Business Conduct

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

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

Shareholders

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

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

The Board acknowledges that encouraging effective two-way communication with shareholders encourages mutual understanding and better connection with them. Investor events are also arranged with shareholders throughout the year which present an opportunity for shareholders to speak with the Executive Directors in a formal environment and in more informal one to one meetings. By providing a variety of ways to communicate with investors the Company feels that it reaches out to engage with a wide range of its stakeholders. The Board is mindful that during the global COVID-19 pandemic face to face meeting with shareholders has not been possible during 2020. The Company has endeavoured to maintain communication with investors remotely and believes that engagement has been carried out efficiently during these challenging times.

On behalf of Board

Antony Craven Walker
Executive Chairman

14 April 2021

DIRECTORS' RESPONSIBILITIES STATEMENT in relation to the Group and Company financial statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT to the members of Serica Energy plc

Opinion

In our opinion:

- Serica Energy plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with section 408 of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Serica Energy plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise:

Group	Parent company
Group balance sheet as at 31 December 2020	Balance sheet as at 31 December 2020
Group income statement for the year then ended	Statement of changes in equity for the year then ended
Group statement of comprehensive income for the year then ended	Statement of cash flows for the year then ended
Group statement of changes in equity for the year then ended	Related notes 1 to 31 to the financial statements including a summary of significant accounting policies
Group statement of cash flows for the year then ended	
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	

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

Basis for opinion

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

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

Conclusions relating to going concern

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

- we obtained the Group's going concern assessment which includes the cash flow forecast and its liquidity position covering the period to 30 June 2022 (the going concern period) and we assessed the information used in the going concern assessment for consistency with the business plans and information obtained through auditing other areas of the business;
- we assessed the key risks to going concern, such as future oil and gas prices and operational issues impacting production volumes, based on management's identification of those risks and our own understanding of the business;
- we reviewed and challenged the significant assumptions applied in the forecast, focussing on the plausible downside scenarios modelled by management, which included the impact on the business model of low oil and gas prices and production shut-ins as a result of COVID-19 outbreaks or other potential operational issues. We assessed the reasonableness of these assumptions and consistency with information used in other aspects of the preparation of the financial statements;
- we challenged management's reverse stress test that was prepared to determine the operating conditions under which Serica could potentially experience a liquidity shortfall during the going concern period. We assessed the likelihood of the breakeven commodity prices materialising based on historic prices and independent third-party price forecasts for the going concern period. Under this reverse stress testing, we concluded that the likelihood of the conditions arising that would lead to a liquidity shortfall were remote;
- we confirmed that the method used in management's model is appropriate and checked the clerical accuracy of the model;

- we obtained bank confirmations of the Group's cash and cash equivalent balances as at 31 December 2020 and received bank statements to confirm the balances as at 1 April 2021;
- we have assessed management's ability to forecast accurately based on their historical performance and, where management have experienced differences between forecasts and actuals (whether due to oil and gas prices or other factors), this has informed our view of the adequacy of the stress testing performed by management in their assessment;
- we also performed inquiries of those charged with Governance, inquiries with members of management outside of the finance function, reviews of minutes and other financial information to consider events or conditions beyond 30 June 2022;
- considered the likelihood of management's ability to execute mitigating actions, as required, to continue its business activities in the severe downside scenarios simulated in the sensitivity analysis and reverse stress test; and
- we reviewed the appropriateness of management's going concern disclosures in describing the risks associated with its ability to continue as a going concern for the period to 30 June 2022.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period from when the financial statements are authorised for issue to 30 June 2022.

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

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further one component. • The components where we performed full or specific audit procedures accounted for 99% of the adjusted profit before tax measure used to calculate materiality, 100% of Revenue and 99% of Total assets.
Key audit matters	• Measurement of BKR contingent consideration • Assessment of commercial reserves and its impact on the Financial Statements • Impairment of property, plant and equipment
Materiality	• Overall group materiality of £3.2m which represents 4% of normalised profit before tax excluding the impact of fair value movements on the BKR contingent consideration and commodity price swaps ("adjusted profit before tax").

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

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

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

Of the three components selected, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. For the remaining one component ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2019: 100%) of the Group's adjusted PBT measure used to calculate materiality, 100% (2019: 100%) of the Group's Revenue and 99% (2019: 99%) of the Group's Total assets. For the current year, the full scope components contributed 81% (2019: 100%) of the Group's adjusted PBT measure used to calculate materiality, 100% (2019: 100%) of the Group's Revenue and 99% (2019: 100%) of the Group's Total assets. The specific scope component contributed 19% (2019: 0%) of the Group's adjusted PBT measure used to calculate materiality, 0% (2019: 0%) of the Group's Revenue and 0% (2019: 1%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

Of the remaining seven components that together represent 0% of the Group's adjusted profit before tax. For these components, we performed other procedures, including analytical review procedures, testing of consolidation journals, and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

There have been no significant changes in scope compared to the prior year audit, which reflects the relative stability of Serica's business and operations in 2020.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Measurement of BKR contingent consideration (£102.4m, 2019 £155.5m) Refer to the Accounting policies (page 61); and Note 22 of the Consolidated Financial Statements (page 83). During 2018, the Group completed a transaction whereby Serica acquired a 98% interest in the Bruce and Keith (BKR) fields and a 50% interest in the Rhum field for a combination of cash, deferred and contingent consideration. The contingent consideration is remeasured at fair value at each reporting date with changes in the fair value during the year being reflected in the income statement. At 31 December 2020, the fair value of the BKR contingent consideration is £102.4 million and the change in fair value since the prior year that is recorded in the income statement represents a gain of £31.3 million. There is a significant judgement and estimation involved in determining the contingent element of the consideration, and its fair value, which is based on a share of future cashflows from the fields. The fair value calculations are complex as most of the contingent consideration is dependent upon future commodity prices and economic environment as well as future asset performance. They involve a range of projections and assumptions related to future operating and development costs, production volumes, oil and gas sales prices, discount rates, estimates of future decommissioning expenditure and taxation. Given this, we believe that the measurement of contingent consideration carries significant risk of material misstatement.	• Our procedures focused primarily on the risks relating to the contingent consideration model, assumptions and judgements associated with the estimation of the consideration. These included: • making enquiries of management and those who participated in the preparation of the valuation to understand the terms of the contracts, whether there had been any changes to the agreements after the 2018 acquisition and obtained an understanding of the process and identified key controls; • ensuring the mechanics of the model are consistent with the terms of the relevant agreements; • checking the integrity of the model and testing its mathematical accuracy; • using our internal valuation specialists to assist us in assessing the key external assumptions and inputs used in measuring the fair value of the contingent consideration payable. This included commodity price curves, discount rates and inflation; • assessing the reasonableness of forecast production and cost profiles, decommissioning and taxation; • assessing management's estimation of commercial oil and gas reserves used in the contingent consideration calculation (see KAM on assessment of commercial reserves); • performing sensitivity analysis in relation to significant assumptions applied by management in the valuation; • confirming the cash consideration paid during the year to relevant transaction agreements and bank documentation; • confirming consistency of assumptions with other areas of the financial statements (including the search for contradictory evidence); and • assessing the adequacy of the related disclosures in Note 22 to the financial statements. • The above audit procedures were performed in one component under full scope audit, covering 100% of this risk amount.	At the April 2021 meeting of the Audit Committee, we confirmed that we were satisfied that management had followed a robust process in estimating the fair value as at the balance sheet date. We concluded that the value of the contingent consideration recorded as a liability at year end and the movement in the liability from 2019, recorded in the income statement, as well as payments made in the year were accounted for appropriately. In addition, we concluded that the disclosures made in relation to the estimates and estimation uncertainty involved with the valuation were appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Assessment of commercial reserves and its impact on the Financial Statements Refer to the Accounting policies section "Use of judgement and estimates and key sources of estimation uncertainty" (page 61) The estimate of oil and gas reserves and resources has a significant impact on the Financial Statements, particularly impairment testing; depreciation, depletion and amortization ('DD&A') charges; and valuation of the contingent consideration associated with the 2018 BKR acquisition. As described in note 15 to the consolidated financial statements, oil and gas properties amounted to £310.8 million and have an associated DD&A charge of £38.5 million. At 31 December 2020, the fair value of contingent consideration is £102.4 million and the impact on the income statement of the change in fair value is £31.3 million. The estimation of oil and natural gas reserves and resources is a significant area due to the technical uncertainty in assessing quantities. Reserves and resources are also a fundamental indicator of the future potential of the group's performance.	We carried out the following procedures: • confirming our understanding of the group's controls over their certification process for technical and commercial experts who are responsible for reserves and resources estimation; • assessing the competence and objectivity of these experts, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation; • obtaining confirmation directly from RISC that they are independent from Serica and have performed their procedures in line with the guidelines set out by the Society of Petroleum Engineers; • confirming that any material changes in reserves and resources were made in the appropriate accounting period; • validating that the reserves and resources estimates were included appropriately as key inputs within the group's financial statements, including; the reserves used in the contingent consideration model, preparation of the cash flow forecasts for the assessment of the going concern assumption, the determination of the deferred tax asset and accounting for DD&A. The above audit procedures were performed in one component under full scope audit, covering 100% of this risk amount.	We did not identify any exceptions as a result of our audit procedures. We consider the commercial reserves updates have been correctly included in the financial statement calculations and consider the disclosures in the Financial Statements to be appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of property, plant and equipment Refer to the Accounting policies section “Use of judgement and estimates and key sources of estimation uncertainty” (page 61) As described in note 15 to the consolidated financial statements, oil and gas properties recorded within property, plant and equipment (PP&E) amounted to £310.8 million as at 31 December 2020. PP&E is assessed for impairment when facts and circumstances suggest that the carrying amount of an asset exceeds its recoverable amount (which is the higher of the estimation of Value in Use and Fair Value less Cost of Disposal). The low and volatile oil and gas price environment during 2020 has led a number of companies in the oil and gas industry to revisit their short, medium or long-term price assumptions. Where the recoverable amount of oil and gas properties are sensitive to any such changes in price assumptions, this could represent a potential indicator of impairment. Other potential indicators of impairment include a producing asset’s operational performance and significant changes (reductions) in oil and gas reserve estimates. There is a risk that impairment indicators are not identified, and any resulting impairment tests are not performed on a timely basis. Where impairment tests are performed, the most complex judgements in determining the recoverable amount of oil and gas properties are the estimation of future oil and gas price, both in the short term and the long term, and the estimation of oil and gas reserves. The estimation of future oil and gas prices is subject to increased uncertainty, given climate change, the energy transition and the impact of the COVID-19 pandemic on the demand for both crude oil and natural gas products. If impairment tests are performed, there is a risk that management’s oil and gas price assumptions are not appropriate, potentially leading to a material misstatement. A further management judgement relates to the estimation of oil and gas reserves as there is significant estimation uncertainty in the process of assessing the quantities of Serica’s commercial reserves and resources. We have described the risk within the Assessment of commercial reserves and its impact on the financial statements key audit matter above.	We carried out the following procedures to respond to the risk: • obtained management’s assessment of whether any indicators of impairment were present at 31 December 2020; • challenged the validity and completeness of the indicators identified by management based on our understanding of the business, experience of auditing other oil and gas companies and knowledge gained from other areas of the audit. Our procedures included: • to test price assumptions, we compared future short and long-term commodity prices to consensus analysts’ forecasts and those adopted by other oil and gas companies; we evaluated whether prices were used consistently across Serica; • we assessed the economic performance of each oil and gas property during the year against approved budgets, taking into account updated reserves and resources estimates; • we considered the results of any impairment tests previously performed and whether there were any significant changes in key assumptions that could have a material impact on the outcome of those tests; • where assets had initially been recorded at fair value, including the BKR acquisition in 2018, we considered whether there was any evidence of changes in key assumptions applied in the fair value exercise that might represent contradictory evidence counter to the conclusions reached in management’s assessment of impairment indicators; • we assessed whether the cash flow forecasts tested as part of our audit of going concern and the fair value of the BKR contingent consideration, including the impact of price downside scenarios and sensitivity analyses, supported the conclusion that the recoverable amounts of the group’s oil and gas properties were not sensitive to changes in current price assumptions; • we obtained and tested relevant support for management’s position on market interest rates and other macro-economic factors; and • the procedures we performed in relation to oil and gas estimates are described above within the Assessment of commercial reserves key audit matter. The above audit procedures were performed in one component under full scope audit, covering 100% of this risk amount.	On the basis of our audit procedures, we are satisfied with the appropriateness of management’s conclusion that there are no indicators of impairment of the group’s oil and gas properties as at 31 December 2020. Although oil and gas prices fell during 2020, Serica’s future price assumptions have not changed significantly and the recoverable amount of the group’s oil and gas properties is not sensitive to any such changes as at 31 December 2020.

In the prior year, our auditor's report included a key audit matter in relation to the impact of Covid-19 and low oil and gas prices on the assessment of going concern. Although the pandemic has not ended, oil and gas prices have increased and have stabilised, based in part on the emergence of effective vaccines. Based on our independent assessment of oil and gas prices to analysts' consensus forecasts we no longer consider the impact of COVID-19 and low oil and gas prices on the assessment of going concern to be a key audit matter. We report separately on our audit of the going concern assessment on page 47.

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be £3.2 million (2019: £3.2 million), which is 4% of adjusted profit before tax (2019: 4% of adjusted profit before tax or 3% of profit before tax). We believe that adjusted profit before tax, on a normalised basis in 2020, provides us with an appropriate basis for planning materiality in the current year audit.

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

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

Given the low prices experienced in 2020, we determined that the basis of planning materiality should be normalised profit before tax. We normalised the 2020 profit before tax by extrapolating the forecast Q4 2020 profit before tax, Under auditing standards, the use of a normalised basis is appropriate where an entity's results are directly impacted by a significant change in the market price for a commodity whilst the underlying operating activity remains similar to previous years, provided this is viewed as a temporary change. In the 4th Quarter of 2020 and post year-end, Brent and NBP prices have more than recovered to the levels they were before the pandemic and price collapses in March 2020. Serica's business and operations have also remained fundamentally the same with the majority of production and profits arising from the BKR assets and the Columbus field under development. By applying a normalised approach, large year-on-year swings in materiality are minimised. We used Q4 2020 forecast earnings as a basis to normalise profit before tax as we believe Q4 oil and gas prices were more stable and reflective of both the price levels experienced in 2019 and the levels forecast in 2021 and 2022. However, given the inherent uncertainty in estimating future commodity prices, we concluded it was appropriate to limit materiality to the same overall level as in the 2019 audit (£3.2 million) and therefore the percentage of adjusted profit before tax that we have applied is lower than the 5% threshold permissible under auditing standards.

In our calculation of initial planning materiality, we also excluded from profit before tax the impact of fair value movements on the BKR contingent consideration and commodity price hedges. This was based on the fact that both of these financial statement items are impacted by significant changes in oil and gas prices, which could distort the underlying results of the performance of the business. These amounts represented net income statement gains of £24.6 million (2020) and £32.3 million (2019) that have therefore been excluded from adjusted profit before tax.

We determined materiality for the parent company to be £5.4 million (2019: £4.2 million), which is 2% of equity (2019: 2% of equity). We use equity as the basis for materiality as the purpose of the parent company is to hold investments in its subsidiaries. Although the parent company has made a profit before tax in 2020, this is because the group has commenced the distribution of intra-group dividends from the operating subsidiaries to the parent company, which has resulted in a significant profit before tax in the parent company. This intragroup distribution was to ensure that the parent company had sufficient distributable reserves in order to make Serica's maiden dividend payment during the year; however, this has not changed the key focus of the users of the parent company financial statements. Furthermore, we do not expect significant annual profits to be generated by the company in future periods, as this will be dependent on the level and timing of any subsequent intra-group dividends paid by the group's operating companies. Any balances in the parent company financial statements that were relevant to our audit of the consolidated group were audited using an allocation of group performance materiality.

During the course of our audit, we reassessed initial materiality and, based on the actual results for the fourth quarter of 2020 compared to management's initial forecast used in our initial assessment, and the relative stability of oil and gas price forecasts for 2021, we concluded that no changes were required.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2019: 50%) of our planning materiality, namely £2.4m (2019: £1.6m). We have set performance materiality at this percentage due to the stability in the group post the material acquisition of BKR in 2018 and the lower number of audit differences identified in the 2019 audit compared to 2018.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £2.1 million (2019: £1.7 million).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.16m (2019: £0.16m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report (set out on pages 4-5 and 8-46), other than the financial statements and our auditor's report thereon. The directors are responsible for the other information within the annual report.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are international accounting standards in conformity with the requirements of the Companies Act 2006, the Companies Act 2006, AIM listing rules and UK tax legislation.
- We understood how Serica Energy plc is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies, and noted there was no contradictory evidence.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand what areas were susceptible to fraud. We also considered performance targets and their propensity to influence management to manage earnings.
- We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where risk was considered as higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: incorporated data analytics across our audit approach, journal entry testing with a focus on manual consolidation journals and journals meeting our defined risk criteria based on our understanding of the business; enquiries of management, review of Board and Audit Committee reporting; and focused testing as referred to in the key audit matters section above.
- We ensured our audit team has appropriate industry experience through working for many years on relevant audits, including experience of oil and gas companies. Our audit planning included considering external market factors, for example geopolitical risk, the potential impact of climate change, commodity price risk and major trends in the industry.

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

Use of our report

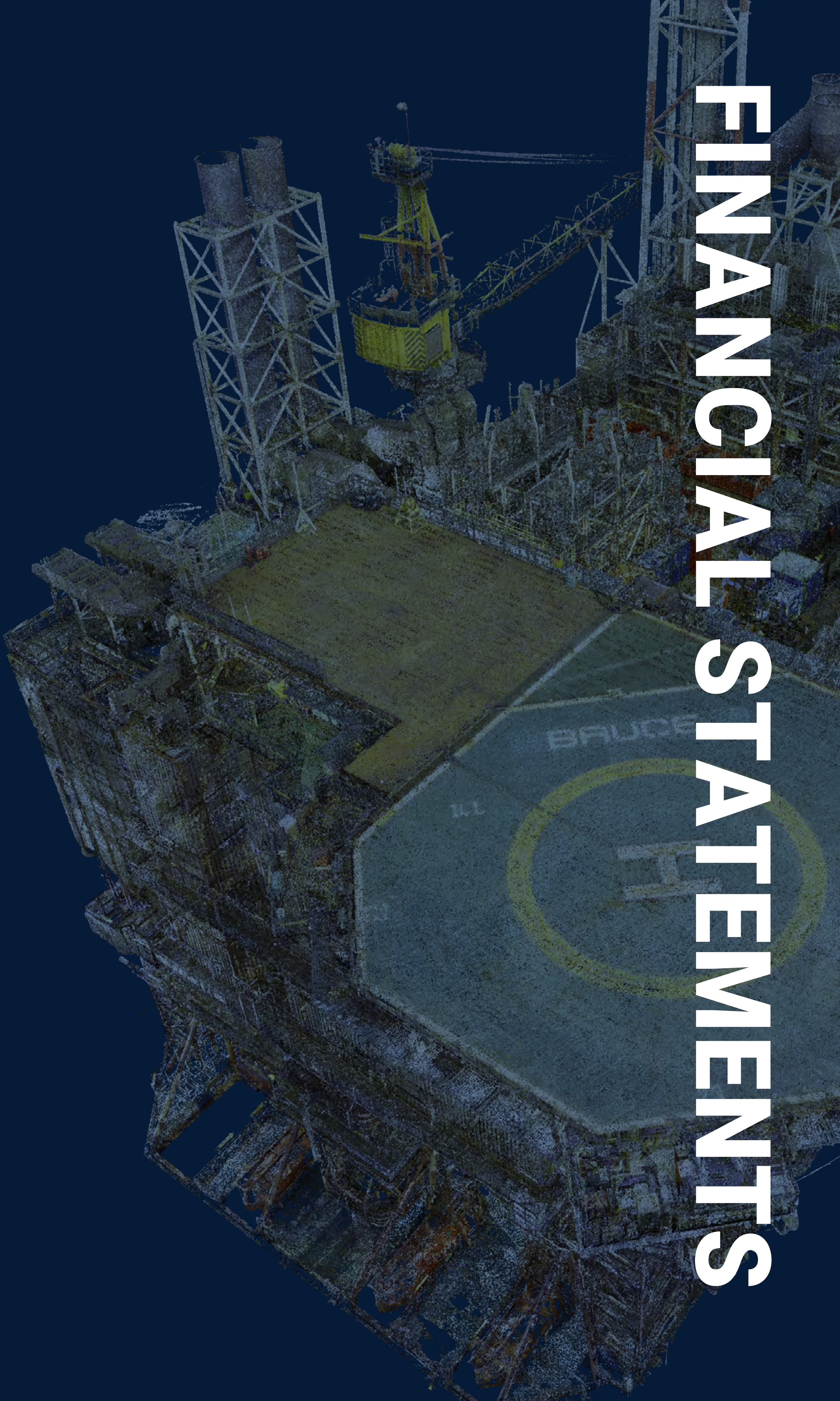
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other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

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

London

14 April 2021

FINANCIAL STATEMENTS



GROUP INCOME STATEMENT for the year ended 31 December

	Note	2020 £000	2019 £000
Continuing operations			
Sales revenue	4	**125,641**	250,533
Cost of sales	5	**(128,560)**	(164,748)
Gross (loss)/profit		**(2,919)**	85,785
Other (expense)/income	6	**(4,276)**	10,618
Pre-licence costs		**–**	(566)
E&E asset write-offs	14	**(3,725)**	(80)
Administrative expenses		**(5,579)**	(5,963)
Foreign exchange loss		**(344)**	(1,020)
Share-based payments	27	**(1,862)**	(1,094)
Operating (loss)/profit before net finance revenue and tax		**(18,705)**	87,680
Change in fair value of BKR financial liabilities	22	**31,296**	21,771
Finance revenue	9	**465**	571
Finance costs	10	**(508)**	(1,252)
Profit before taxation		**12,548**	108,770
Taxation charge for the year	11a)	**(4,769)**	(44,750)
Profit for the year		**7,779**	64,020
Earnings per ordinary share – EPS			
Basic EPS on profit for the year (£)	12	**0.03**	0.24
Diluted EPS on profit for the year (£)	12	**0.03**	0.23

Group Statement of Comprehensive Income

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

BALANCE SHEET as at 31 December

Registered number: 5450950	Note	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Non-current assets					
Exploration & evaluation assets	14	**1,043**	3,652	**–**	–
Property, plant and equipment	15	**311,125**	325,404	**215**	387
Investments in subsidiaries	16	**–**	–	**105,256**	105,256
		312,168	329,056	**105,471**	105,643
Current assets					
Inventories	17	**4,633**	4,671	**–**	–
Trade and other receivables	18	**41,329**	35,906	**162,291**	93,330
Derivative financial asset	19	**–**	6,880	**–**	–
Cash and cash equivalents	20	**89,333**	101,825	**7,078**	11,348
		135,295	149,282	**169,369**	104,678
Total Assets		**447,463**	478,338	**274,840**	210,321
Current liabilities					
Trade and other payables	21	**(31,121)**	(24,600)	**(995)**	(1,738)
Derivative financial liability	19	**(9,691)**	–	**–**	–
Financial liabilities	22	**(53,634)**	(45,351)	**–**	–
Provisions	23	**(1,002)**	(1,848)	**–**	–
Non-current liabilities					
Financial liabilities	22	**(48,770)**	(110,108)	**–**	–
Provisions	23	**(22,799)**	(22,590)	**–**	–
Deferred tax liability	11d)	**(80,600)**	(75,831)	**–**	–
Total Liabilities		**(247,617)**	(280,328)	**(995)**	(1,738)
Net Assets		**199,846**	198,010	**273,845**	208,583
Share capital	25	**181,606**	181,385	**153,907**	153,686
Merger reserve	16	**–**	–	**88,088**	88,088
Other reserve		**19,680**	17,818	**19,680**	17,818
Accumulated (deficit)/funds		**(1,440)**	(1,193)	**12,170**	(51,009)
Total Equity		**199,846**	198,010	**273,845**	208,583

The profit for the Company was £71.2 million for the year ended 31 December 2020 (2019: loss of £2.6 million). In accordance with the exemption granted under section 408 of the Companies Act 2006 a separate income statement for the Company has not been presented.

Approved by the Board on 14 April 2021

Antony Craven Walker
Executive Chairman

Mitch Flegg
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December

Group	Note	Share capital £000	Other reserve £000	Accum'd deficit £000	Total £000
At 1 January 2019		180,294	16,724	(65,213)	131,805
Profit for the year		–	–	64,020	64,020
Total comprehensive income		–	–	64,020	64,020
Share–based payments	27	–	1,094	–	1,094
Issue of share capital	25	1,091	–	–	1,091
At 31 December 2019		181,385	17,818	(1,193)	198,010
Profit for the year		–	–	7,779	7,779
Total comprehensive income		–	–	7,779	7,779
Share–based payments	27	–	1,862	–	1,862
Issue of share capital	25	221	–	–	221
Dividend paid	13	–	–	(8,026)	(8,026)
At 31 December 2020		**181,606**	**19,680**	**(1,440)**	**199,846**

Company	Share capital £000	Merger reserve £000	Other reserve £000	Accum'd funds/ (deficit) £000	Total £000
At 1 January 2019	152,595	88,088	16,724	(48,426)	208,981
Loss for the year	–	–	–	(2,583)	(2,583)
Total comprehensive income	–	–	–	(2,583)	(2,583)
Share-based payments (note 27)	–	–	1,094	–	1,094
Issue of share capital (note 25)	1,091	–	–	–	1,091
At 31 December 2019	153,686	88,088	17,818	(51,009)	208,583
Profit for the year	–	–	–	71,205	71,205
Total comprehensive income	–	–	–	71,205	71,205
Share-based payments (note 27)	–	–	1,862	–	1,862
Issue of share capital (note 25)	221	–	–	–	221
Dividend paid (note 13)	–	–	–	(8,026)	(8,026)
At 31 December 2020	**153,907**	**88,088**	**19,680**	**12,170**	**273,845**

CASH FLOW STATEMENT for the year ended 31 December

	Note	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Operating activities:					
Profit/(loss) for the year		**7,779**	64,020	**71,205**	(2,583)
Adjustments to reconcile profit for the year to net cash flow from operating activities:					
Taxation charge		**4,769**	44,750	**–**	–
Change in BKR fair value liability		**(31,296)**	(21,771)	**–**	–
Net finance costs/(income)		**43**	681	**(20)**	(176)
Depreciation and depletion		**38,495**	52,631	**–**	–
Oil and NGL over/underlift		**342**	6,969	**–**	–
E&E asset write-offs		**3,725**	80	**–**	–
Unrealised hedging losses/(gains)		**16,571**	(6,742)	**–**	–
Write-back of loans and investments		**–**	–	**–**	–
Share-based payments		**1,862**	1,094	**1,862**	1,094
Other non-cash movements		**629**	638	**182**	(149)
(Increase)/decrease in trade and other receivables		**(5,423)**	6,147	**(74,906)**	1,100
Decrease/(increase) in inventories		**38**	(386)	**–**	–
Increase/(decrease) in trade and other payables		**6,537**	(11,056)	**(438)**	(1,690)
Net cash in/(out)flow from operations		**44,071**	137,055	**(2,115)**	(2,404)
Investing activities:					
Interest received		**465**	571	**57**	225
Purchase of E&E assets		**(1,116)**	(549)	**–**	–
Purchase of property, plant and equipment		**(25,530)**	(4,736)	**–**	–
Cash outflow from business combination	22	**(21,759)**	(57,259)	**–**	–
Cash outflow arising on asset acquisitions		**–**	–	**–**	–
Changes in term deposits		**–**	1,000	**–**	1,000
Receipts/(payments) from Group subsidiaries		**–**	–	**5,945**	(8,196)
Net cash flow from investing activities		**(47,940)**	(60,973)	**6,002**	(6,971)
Financing activities:					
Repayments of borrowings	22	**–**	(15,673)	**–**	–
Payments of lease liabilities	28	**(133)**	(178)	**(133)**	(178)
Proceeds from issue of shares	25	**221**	1,091	**221**	1,091
Dividends paid	13	**(8,026)**	–	**(8,026)**	–
Finance costs paid		**(56)**	(962)	**(37)**	(49)
Net cash flow from financing activities		**(7,994)**	(15,722)	**(7,975)**	864
Net (decrease)/increase in cash and cash equivalents	26	**(11,863)**	60,360	**(4,088)**	(8,511)
Effect of exchange rates on cash and cash equivalents	26	**(629)**	(638)	**(182)**	149
Cash and cash equivalents at 1 January	26	**101,825**	42,103	**11,348**	19,710
Cash and cash equivalents at 31 December	26	**89,333**	101,825	**7,078**	11,348

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

The Group's and Company's financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 14 April 2021 and the balance sheets were signed on the Board's behalf by Antony Craven Walker and Mitch Flegg. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales with its registered office at 48 George Street, London, W1U 7DY. The principal activity of the Company and the Group is to identify, acquire and subsequently exploit oil and gas reserves. Its current activities are located in the United Kingdom. The Company's ordinary shares are traded on AIM.

The Group's financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Group for the year ended 31 December 2020. The Company's financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Company for the year ended 31 December 2020 and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The profit dealt with in the financial statements of the parent Company was £71,205,000 (2019: loss £2,583,000).

2. Accounting Policies

Basis of Preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020.

The Group and Company financial statements have been prepared on a historical cost basis and following the change in functional and presentational currency from US$ to £ sterling with effect from 1 January 2019 are presented in £ sterling. All values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Going Concern

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

At 31 December 2020 the Group held cash and term deposits of £89.3 million which had increased to approximately £93.6 million by 31 March 2021 after payment of £4.6 million of margin calls related to outstanding gas price hedging. The balance at 31 March 2021 included £6.4 million of restricted funds. The bulk of contingent and deferred consideration due under the BKR acquisition agreements is related to future successful field performance and consequently will be either reduced or deferred in the event of lower net cash generation from either production interruptions or lower oil and gas prices.

The Group regularly monitors its cash, funding and liquidity position. Near term cash projections are revised and underlying assumptions reviewed, generally monthly, and longer-term projections are also updated regularly. Downside price and other risking scenarios are considered. In addition to commodity sales prices the Group is exposed to potential production interruptions and these are also considered under such scenarios. Serica's acquisitions to-date have been structured to reduce post-completion risk and, following completion of the BKR transactions, management has given priority to building a strong cash reserve which can respond to different types of risk. For the purposes of the Group's going concern assessment we have reviewed cash projections for the period ending 30 June 2022, the 'going concern period'.

Following onset of the COVID-19 crisis, we stress tested future cash flow forecasts for the Group to evaluate the impact of plausible downside scenarios. The environment has since improved but Serica continues to model the downside impact of production interruption and lower than forecast commodity prices. These include scenarios that reflect extended low oil and gas prices over 2021 and 2022, which are lower than current forecasts and forward prices, and a three-month production shut-in to reflect potential operational or COVID-19 related issues that could impact the Group. Under such scenarios we retain sufficient liquidity in our business. We have also performed a reverse stress test to assist our judgement which is designed to model the extreme price conditions that would have to exist such that the Group required additional cash resources or had to rely upon additional cash resources within the going concern period.

The impact of low gas prices is partially mitigated by price hedging up to 31 March 2023 for a proportion of projected gas sales volumes, which deliver monthly cash inflows to Serica where market prices are lower than 31 up to 50 pence per therm with the price variations reflecting the periods covered. The BKR net cash flow sharing arrangements, which run to end 2021, vary in line with actual net cash generated and therefore the impact of lower sales prices and production volumes will be shared by Serica and the previous BKR owners.

Serica currently has no borrowings, relatively low operating costs per boe and its limited capital commitments can be funded from existing cash resources. Additionally, we have implemented operating cost reductions which provide further resilience against softer commodity prices. In particular, Serica has reduced the level of offshore personnel through the COVID-19 period by deferring non-essential work and has facilitated remote working wherever possible.

After making enquiries and having taken into consideration the above factors, the Directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

2. Accounting Policies continued

Use of judgement and estimates and key sources of estimation uncertainty

The preparation of financial statements in conformity with International Accounting Standards in conformity with the requirements of the Companies Act 2006 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes could differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognised in the financial statements are: determining the fair value of contingent consideration, determining the fair value of property, plant and equipment on a business combination, decommissioning provisions, the assessment of commercial reserves, the impairment of the Group and Company's assets (including oil and gas development assets and Exploration and Evaluation "E&E" assets), and the recoverability of deferred tax assets.

Determining the fair value of contingent consideration on BKR acquisitions

The Group determined the fair value of initial contingent consideration payable based on discounted cash flows at the time of the acquisition in 2018, calculated for each separate component of the contingent consideration. The same models and assumptions were used in the calculation of the fair value of property, plant and equipment arising on the business combination. Any cash flows specific to the contingent consideration also reflect applicable commercial terms and risks. In calculating the fair value of contingent consideration on the BKR acquisitions payable as at 31 December 2020, assumptions underlying the calculation were updated from 2019. These included updated commodity prices, production profiles, future opex, capex and decommissioning cost estimates, discount rates, proved and probable reserves estimates and risk assessments. For further details including sensitivities of the calculation to changes in input variables, see note 22.

Decommissioning provision

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

Assessment of commercial oil and gas reserves

Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment charge is required. The Group employs independent reserves specialists who periodically assess the Group's level of commercial reserves by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Group's assets. In addition, the Group undertakes its own assessment of commercial reserves and related future capital expenditure by reference to the same data sets using its own internal expertise.

Assessment of the recoverable amount of intangible and tangible assets

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

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

Management is required to assess the carrying value of investments in subsidiaries in the parent company balance sheet for impairment by reference to the recoverable amount. This requires an estimate of amounts recoverable from oil and gas assets within the underlying subsidiaries (see note 16).

A review was performed for any indication that the value of the Group's oil and gas assets may be impaired at the balance sheet date of 31 December 2020 in accordance with the stated policy and no impairment triggers were noted.

2. Accounting Policies continued

Deferred taxation

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. To the extent that actual events differ significantly from estimates, the ability of the Group to realise deferred tax assets could be impacted.

Basis of Consolidation

The consolidated financial statements include the accounts of Serica Energy plc (the "Company") and its wholly owned subsidiaries Serica Holdings UK Limited, Serica Energy Holdings B.V., Serica Energy (UK) Limited, Serica Glagah Kambuna B.V., Serica Sidi Moussa B.V., Serica Energy Slyne B.V., Serica Energy Rockall B.V., Serica Energy Namibia B.V., Serica Energy Corporation, Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited and Petroleum Development Associates (Lematang) Limited. Together these comprise the "Group".

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

Foreign Currency Translation

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

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

Business Combinations and Goodwill

Business combinations from 1 January 2010

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

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

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

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

Joint Arrangements

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

2. Accounting Policies continued

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

Exploration and Evaluation Assets

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

Pre-licence Award Costs

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

Exploration and Evaluation (E&E)

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

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

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

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

Asset Purchases and Disposals

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

Farm-ins

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

Property, Plant and Equipment – Oil and gas properties

Capitalisation

Oil and gas properties are stated at cost, less any accumulated depreciation and accumulated impairment losses. Oil and gas properties are accumulated into single field cost centres and represent the cost of developing the commercial reserves and bringing them into production together with the E&E expenditures incurred in finding commercial reserves previously transferred from E&E assets as outlined in the policy above. The cost will include, for qualifying assets, 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 reporting date. Proved and probable reserves estimates obtained from an independent reserves specialist have been used as the basis for 2019 and 2020 calculations.

2. Accounting Policies continued

Impairment

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

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

Acquisitions, Asset Purchases and Disposals

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

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

Decommissioning

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

Any changes in the present value of the estimated expenditure is added to or deducted from the cost of the assets to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. The unwinding of the discount on the decommissioning provision is included as a finance cost.

Underlift/Overlift

Lifting arrangements for oil and gas produced in certain fields are such that each participant may not receive its share of the overall production in each period. The difference between cumulative entitlement and cumulative production less stock is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within debtors ('underlift') or creditors ('overlift').

Property, Plant and Equipment – Other

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

Inventories

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

Investments

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

Financial Instruments

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

Financial assets

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs (in the case of a financial asset not at fair value through profit or loss). Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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

2. Accounting Policies continued

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

Derivative financial instruments

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

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

Equity

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

Trade and other receivables and contract assets

Trade receivables and contract assets

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

Provision for expected credit losses of trade receivables and contract assets

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

Provisions

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

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

Revenue from contracts with customers

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

2. Accounting Policies continued

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

Finance Revenue

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

Finance Costs

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

Share-Based Payment Transactions

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

Equity-settled transactions

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

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

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

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

Income Taxes

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

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

- temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and
- temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the income statement nor taxable profit or loss.

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

2. Accounting Policies continued

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

In applying IFRS 16 for the first time the Group applied the short-term lease practical expedient by not recognising lease liabilities in respect to lease arrangements with a remaining lease term of less than 12 months as at 1 January 2019. The Group adopted the modified retrospective approach to adoption on 1 January 2019, measuring right-of use assets at an amount based on their respective lease liability on adoption, with the cumulative effect of adopting the standard recognised at the date of initial application without restatement of comparative information.

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

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

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

The Group does not currently act as a lessor.

New and amended standards and interpretations

The Group has adopted and applied for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and effect of the changes that result from the adoption of these new standards are described below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any additional business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group.

2. Accounting Policies continued

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Standards issued but not yet effective

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

3. Segment Information

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

The following tables present revenue, profit and certain asset and liability information regarding the Group's geographical reportable segments for the years ended 31 December 2020 and 2019. Costs associated with the UK corporate centre are included in the UK reportable segment.

Year ended 31 December 2020	UK £000	Africa £000	Total £000
Revenue	125,641	–	125,641
Continuing operations			
Depletion	(38,495)	–	(38,495)
Other expenses	(102,126)	–	(102,126)
E&E asset write-offs	(267)	(3,458)	(3,725)
Operating and segment loss	(15,247)	(3,458)	(18,705)
Change in BKR financial liability	31,296	–	31,296
Finance revenue	465	–	465
Finance costs	(508)	–	(508)
Profit/(loss) before taxation	16,006	(3,458)	12,548
Taxation charge for the year	(4,769)	–	(4,769)
Profit/(loss) after taxation	11,237	(3,458)	7,779
Other segment information:			
Property, plant & equipment	311,125	–	311,125
Exploration and evaluation assets	1,043	–	1,043
Other assets	135,295	–	135,295
Unallocated assets			–
Total assets	447,463	–	447,463
Segment liabilities	(247,617)	–	(247,617)
Total liabilities	(247,617)	–	(247,617)
Capital expenditure 2020:			
Property, plant & equipment	25,530	–	25,530
Exploration and evaluation assets	1,006	110	1,116

3. Segment Information continued

Year ended 31 December 2019	UK £000	Ireland £000	Africa £000	Total £000
Revenue	250,533	–	–	250,533
Continuing operations				
Depletion	(52,631)	–	–	(52,631)
Other expenses	(109,576)	–	–	(109,576)
Pre-licence costs	(566)	–	–	(566)
E&E asset write-offs	(62)	(18)	–	(80)
Operating and segment profit/(loss)	87,698	(18)	–	87,680
Change in BKR financial liability	21,771	–	–	21,771
Finance revenue	571	–	–	571
Finance costs	(1,252)	–	–	(1,252)
Profit/(loss) before taxation	108,788	(18)	–	108,770
Taxation charge for the year	(44,750)	–	–	(44,750)
Profit/(loss) after taxation	64,038	(18)	–	64,020
Other segment information:				
Property, plant & equipment	325,404	–	–	325,404
Exploration and evaluation assets	304	–	3,348	3,652
Other assets	149,282	–	–	149,282
Unallocated assets				–
Total assets	474,990	–	3,348	478,338
Segment liabilities	(280,272)	(52)	(4)	(280,328)
Total liabilities	(280,272)	(52)	(4)	(280,328)
Capital expenditure 2019:				
Property, plant & equipment	5,074	–	–	5,074
Exploration and evaluation assets	291	18	240	549

Unallocated assets comprise cash on deposit. In 2019 and 2020 all cash on deposit is allocated to the UK operating segment.

Information on major customers is provided in note 4.

4. Sales Revenue

	2020 £000	2019 £000
Gas sales	**80,066**	152,586
Oil sales	**32,917**	75,237
NGL sales	**12,658**	22,710
	125,641	250,533

Gas sales revenue in 2019 and 2020 arose from one key customer, all oil sales revenue in 2019 and 2020 was from one key customer, and NGL sales in 2020 were made to four (2019: four) customers.

5. Cost of Sales

	2020 £000	2019 £000
Operating costs	**89,723**	105,148
Depletion (see note 15)	**38,495**	52,631
Movement in liquids overlift/underlift	**342**	6,969
	128,560	164,748

6. Group Operating (Loss)/Profit

	2020 £000	2019 £000
This is stated after crediting/(charging):		
Realised hedging gains	**12,295**	3,876
Unrealised hedging (losses)/gains	**(16,571)**	6,742
Other (expense)/income	**(4,276)**	10,618

Depreciation, depletion and amortisation expense

Depreciation of other property, plant and equipment totalled £225,000 in 2020 (2019: £190,000) and was allocated within general and administrative expenses.

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

7. Auditor's Remuneration

	2020 £000	2019 £000
Audit of the Group accounts	**300**	325
Audit of the Company's accounts	**30**	30
Audit of accounts of Company's subsidiaries	**10**	12
Total audit fees	**340**	367

No fees were paid to Ernst & Young LLP and its associates for non-audit services in 2019 or 2020.

8. Staff Costs and Directors' Emoluments

a) Staff Costs	2020 £000	2019 £000
Staff costs – Group		
Wages and salaries	**17,935**	15,260
Social security costs	**2,276**	2,075
Other pension costs	**1,966**	1,960
Share-based long-term incentives	**1,839**	1,094
	24,016	20,389

Staff Costs – Company		
Staff costs		
Wages and salaries	**2,432**	2,506
Social security costs	**362**	455
Other pension costs	**145**	94
	2,939	3,055

The average number of persons employed by the Group during the year was 153 (2019: 145), with 9 in management functions (2019: 9), 134 (2019: 126) in technical functions and 10 (2019: 10) in finance and administrative functions.

The average number of persons employed by the Company during the year was 11 (2019:10) with 7 (2019: 7) in management functions, 1 (2019: nil) in technical functions and 3 (2019: 3) in finance and administrative functions.

Staff costs for key management personnel:		
Short-term employee benefits	**1,340**	1,255
Post-employment benefits	**40**	40
Share-based payments	**544**	242
	1,924	1,537

8. Staff Costs and Directors' Emoluments continued

b) Directors' Emoluments

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

	2020 Salary and fees £000	2020 Bonus £000	2020 Pension £000	2020 Benefits in kind £000	2020 Total £000	2019 Total £000
A Craven Walker	400	80	–	5	**485**	419
M Flegg[1]	400	80	40	1	**521**	564
N Pike	50	–	–	–	**50**	50
I Vann	50	–	–	–	**50**	50
T Garlick	50	–	–	–	**50**	50
M Webb	50	–	–	–	**50**	50
K Coppinger[2]	28	–	–	–	**28**	–
	1,028	**160**	**40**	**6**	**1,234**	**1,183**

Note (1) Cash in lieu of pension.
Note (2) Kate Coppinger was appointed on 22 April 2020

	2020	2019
Number of Directors securing benefits under defined contribution schemes during the year	**1**	1
Number of Directors who exercised share options	**–**	–

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

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

9. Finance Revenue

	2020 £000	2019 £000
Bank interest receivable	**465**	571
Total finance revenue	**465**	571

10. Finance Costs

	2020 £000	2019 £000
Interest payable on BKR Facility	**–**	643
Other interest payable	**56**	96
Unwinding of discount on decommissioning provisions (note 23)	**452**	513
Total finance costs	**508**	1,252

11. Taxation

	2020 £000	2019 £000
a) Tax charged in the income statement		
Charge for the year	**–**	–
Total current income tax charge	**–**	–
Deferred tax		
Origination and reversal of temporary differences in the current year	**4,769**	44,750
Adjustment in respect of prior years	**–**	–
Total deferred tax charge	**4,769**	44,750
Tax charge in the income statement	**4,769**	44,750

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

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

	2020 £000	2019 £000
Accounting profit before taxation	**12,548**	108,770
Statutory rate of corporation tax in the UK of 40% (2019: 40%)	**5,019**	43,508
Expenses not deductible for tax purposes	**185**	218
Unrecognised tax losses	**1,519**	1,033
Exploration write-offs	**971**	29
Investment Allowance	**(1,600)**	–
Income not subject to tax	**(988)**	–
Revisions to assets	**(338)**	–
Different foreign tax rates	**521**	11
Other	**(520)**	(49)
Tax charge/(credit) reported in the income statement	**4,769**	44,750

11. Taxation continued

c) Recognised and unrecognised tax losses

The Group's deferred tax assets at 31 December 2020 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 2020 with respect to ring fence losses and allowances.

The Group has UK ring fence tax losses of £46.1 million available as at 31 December 2020 (2019: £40.2 million) which form part of total UK tax losses of approximately £72.4 million (2019: £65.4 million) that are available indefinitely for offset against future trading profits of the companies in which the losses arose. Of this amount £46.1 million (2019: £40.2 million) has been set off against taxable temporary differences. The benefit of approximately £26.3 million (2019: £25.2 million) of tax losses has not been recognised in these consolidated statements which reflects the extent of the total available UK tax losses that have not either been recognised in the net deferred tax asset or set against a deferred tax liability arising.

d) Deferred tax

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

	2020 £000	2019 £000
Deferred tax liability:		
Temporary differences on capital expenditure	**(124,781)**	(130,162)
Deferred tax liability	**(124,781)**	(130,162)
Deferred tax asset:		
Tax losses carried forward	**20,427**	16,395
Deductibles under the Net Cash Flow Sharing Deed	**14,635**	28,900
Decommissioning liability	**9,119**	9,036
Deferred tax asset	**44,181**	54,331
Net deferred tax liability	**(80,600)**	(75,831)

Reconciliation of net deferred tax (liabilities)/assets

	2020 £000	2019 £000
At 1 January	**(75,831)**	(31,081)
Tax charge during the year recognised in profit	**(4,769)**	(44,750)
At 31 December	**(80,600)**	(75,831)

11. Taxation continued

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

	2020 £000	2019 £000
Deferred tax in the income statement:		
Temporary differences on capital expenditure	**(5,381)**	(19,666)
Temporary difference on future recoverable costs	**–**	–
Tax losses carried forward	**(4,032)**	27,483
Net Cash Flow Sharing Deed	**14,265**	36,910
Other temporary differences	**(83)**	23
Deferred income tax charge/(credit)	**4,769**	44,750

e) Changes to UK corporation tax legislation

In the Budget statement on 3 March 2021 it was announced that the corporation tax rate will increase from 19% to 25% with effect from 2023. 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 headline rate of tax for UK ring-fenced trading profits remains at 40%.

f) Unrecognised deferred tax liability

In 2020 and 2019 there are no material temporary differences associated with investments withbsidiaries for which subsidiaries for which deferred tax liabilities have not been recognised.

g) Company

The Company has £26.3 million (2019: £25.2 million) of UK corporation tax losses which are not recognised as deferred tax assets.

12. Earnings Per Share

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

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

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

	2020 £000	2019 £000
Net profit from continuing operations	**7,779**	64,020
Net profit attributable to equity holders of the parent	**7,779**	64,020

	2020 '000	2019 '000
Basic weighted average number of shares	**267,523**	265,768
Dilutive potential of ordinary shares granted under share-based payment plans	**10,511**	10,362
Diluted weighted average number of shares	**278,034**	276,130

	2020 £	2019 £
Basic EPS on profit for the year (£)	**0.03**	0.24
Diluted EPS on profit for the year (£)	**0.03**	0.23

13. Dividends Proposed

Proposed dividends on ordinary shares

A final cash dividend for 2020 of 3.5 pence per share is proposed which would generate a payment of £9.4 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.

Dividend on ordinary shares paid in 2020

A final cash dividend for 2019 of 3 pence per share was proposed in April 2020 and approved at the annual general meeting on 25 June 2020. Following the approval in the 1H 2020 period, the dividend payable of £8.0 million was paid in July 2020.

14. Exploration and Evaluation Assets

Group	Total £000
Cost:	
1 January 2019	3,183
Additions	549
Write-offs	(80)
31 December 2019	3,652
Additions	1,116
Write-offs	(3,725)
31 December 2020	**1,043**
Provision for impairment:	
1 January 2019	–
Impairment reversal for the year	–
31 December 2019	–
Impairment reversal for the year	–
31 December 2020	**–**
Net book amount:	
31 December 2020	**1,043**
31 December 2019	3,652
1 January 2019	3,183

The 2020 asset write-off figure comprised a £3.458 million charge against the Group's Namibian licence following the region exit in the year, and £0.267 million from the relinquishment of UK Licence P2388 Block 23/21b.

The 2019 asset write-off figure comprised a £0.1 million charge following the relinquishment of UK Licence P1620 (containing the Rowallan prospect) and final minor charges against costs incurred on the Group's Irish licences.

Company

The Company has no E&E assets.

15. Property, Plant and Equipment

Group	Oil and gas properties £000	Equipment, fixtures and fittings £000	Right-of-use assets £000	Total £000
Cost:				
1 January 2019	383,033	212	–	383,245
Additions	4,558	–	516	5,074
Revisions (note 23)	(570)	–	–	(570)
31 December 2019	387,021	212	516	387,749
Additions	25,530	–	–	25,530
Revisions (note 23)	(1,089)	–	–	(1,089)
31 December 2020	**411,462**	**212**	**516**	**412,190**
Depreciation and depletion:				
1 January 2019	9,524	–	–	9,524
Charge for the year (note 5)	52,631	61	129	52,821
31 December 2019	62,155	61	129	62,345
Charge for the year (note 5,6)	38,495	53	172	38,720
31 December 2020	**100,650**	**114**	**301**	**101,065**
Net book amount:				
31 December 2020	**310,812**	**98**	**215**	**311,125**
31 December 2019	324,866	151	387	325,404
1 January 2019	373,509	212	–	373,721

BKR asset acquisitions

On 30 November 2018 the Group acquired interests in the Bruce, Keith and Rhum fields resulting in an acquisition of assets at a value of £326.3 million allocated to property, plant and equipment.

Other

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

Company

The Company has right-of-use assets with a net book amount of £0.2 million as at 31 December 2020 (2019: £0.4 million).

16. Investments

Company – Investment in subsidiaries	Total £000
Cost:	
As at 1 January 2019	105,256
Movement in investment	–
As at 1 January 2020	105,256
Movement in investment	–
As at 31 December 2020	**105,256**
Provision for impairment:	
As at 1 January 2019	–
Impairment reversal for the year	–
As at 1 January 2020	–
Impairment reversal for the year	–
As at 31 December 2020	**–**
Net book amount:	
31 December 2020	**105,256**
31 December 2019	105,256
1 January 2019	105,256

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

16. Investments continued

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 2020	% voting rights and shares held 2019
Serica Holdings UK Ltd	Ordinary	Holding	100	100
Serica Energy Holdings BV (i & iii)	Ordinary	Holding	100	100
Serica Energy (UK) Ltd (i)	Ordinary	E&P	100	100
Serica Energy Slyne BV (i & iii)	Ordinary	Exploration	100	100
Serica Energy Rockall BV (i & iii)	Ordinary	Exploration	100	100
Serica Energy Namibia BV (i & iii)	Ordinary	Exploration	100	100
Serica Sidi Moussa BV (i & iii)	Ordinary	Exploration	100	100
Serica Glagah Kambuna BV (i & iii)	Ordinary	Dormant	100	100
Serica Energy Corporation (i & ii)	Ordinary	Dormant	100	100
APD Ltd (i & ii)	Ordinary	Dormant	100	100
PDA Asia Ltd (i & ii)	Ordinary	Dormant	100	100
PDA (Lematang) Ltd (i)	Ordinary	Dormant	100	100
Serica UK Exploration Ltd (i)	Ordinary	Dormant	100	100

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

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

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

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

17. Inventories

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Materials and spare parts	**4,633**	4,671	**–**	–
	4,633	4,671	**–**	–

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 £1.6 million (2019: £1.3 million).

18. Trade and Other Receivables

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Due within one year:				
Amounts owed by Group undertakings	**–**	–	**162,119**	93,064
Trade receivables	**20,172**	20,859	**–**	–
Amounts recoverable from JV partners	**15,836**	10,870	**–**	–
Other receivables	**1,689**	1,191	**–**	–
Prepayments and accrued income	**1,176**	983	**82**	–
VAT recoverable	**2,456**	2,003	**90**	266
	41,329	35,906	**162,291**	93,330

Trade receivables at 31 December 2020 arose from five (2019: five) customers. They are non-interest bearing and are generally on 15 to 30-day terms.

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

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

At the reporting date the amounts owed by Group undertakings to the Company are disclosed net of an impairment of £13,231,000 (2019: £13,231,000).

19. Financial (Liabilities)/Assets

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Financial (liabilities)/assets				
Derivative financial instruments	**(9,691)**	6,880	**–**	–
	(9,691)	6,880	**–**	–

Derivative financial instruments

The Group enters into derivative financial instruments with various counterparties. The gas put option commodity contract with BP held at 31 December 2019 (fair value hierarchy level 2) was measured based on a consensus of mid-market values from third party providers based on the Black-Scholes model with inputs of observable spot commodities price, interest rates and the volatility of the commodity. No gas put options were held at 31 December 2020. Other derivative financial instruments held at 31 December 2019 and 2020 comprised gas swaps which were valued by counterparties, with the valuations reviewed internally and corroborated with readily available market data (level 2).

Details of the Group's derivative financial instruments held as at 31 December 2020 and entered into during 2021 to date are provided in note 24.

20. Cash and Term Deposits

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Cash at bank and in hand	**36,010**	42,584	**1,217**	5,281
Short-term deposits	**53,323**	59,241	**5,861**	6,067
Cash and cash equivalents	**89,333**	101,825	**7,078**	11,348
Term deposits	**–**	–	**–**	–
	89,333	101,825	**7,078**	11,348

As at 31 December 2020, the cash balance of £89.3 million (2019: £101.8 million) contains an amount of £12.1 million (2019: £12.1 million) held in a restricted account as security against letters of credit issued in respect of certain decommissioning liabilities. This secured amount was reduced to £6.4 million on 1 January 2021. At 31 December 2020 a cash margin call of £1.8 million had been paid to a hedge counterparty as security against settlement of future hedge instruments (2019: nil) and is included in Other debtors.

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

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

	S&P/ Moody's credit rating	Group		Company	
		2020 £000	2019 £000	2020 £000	2019 £000
Barclays Bank plc	A-1	**38,076**	36,358	**4,121**	5,229
Lloyds Bank plc	A-1	**38,885**	53,120	**2,957**	6,119
Investec Bank plc	P-1	**12,333**	12,314	**–**	–

21. Trade and Other Payables

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Current:				
Trade payables	**11,237**	5,807	**246**	94
Other payables	**384**	1,914	**327**	629
Accrued expenses	**18,936**	16,657	**422**	1,015
Liquids overlift	**564**	222	**–**	–
	31,121	24,600	**995**	1,738

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

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

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

22. Financial liabilities

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
BKR contingent consideration	**102,404**	148,054	**–**	–
BKR deferred consideration	**–**	7,405	**–**	–
	102,404	155,459	**–**	–
Split:				
Current	**53,634**	45,351	**–**	–
Non–current	**48,770**	110,108	**–**	–
	102,404	155,459	**–**	–

BKR consideration

On 30 November 2018 Serica completed the four BKR acquisitions. These comprised:

- 36% in Bruce, 34.83333% in Keith and 50% in Rhum plus operatorship of each field from BP Exploration Operating Company Limited ("BP"). Initial consideration, paid at completion, was £12.8 million with contingent payments of £16 million due in relation to the outcome of future work on the Rhum R3 well and up to a total £23.1 million due in relation to Rhum field performance and sales prices in respect of 2019, 2020 and 2021.
- 42.25% in Bruce and 25% in Keith from Total E&P UK Limited ("Total E&P"). Initial consideration was US$5 million with three further instalments of deferred consideration of US$5 million each due on 31 July 2019, 31 March 2020 and 30 November 2020.
- 16% in Bruce and 31.83333% in Keith from BHP Billiton Petroleum Great Britain Limited ("BHP"). Initial consideration was £1 million.
- 3.75% in Bruce and 8.33334% in Keith from Marubeni Oil and Gas (UK) Limited ("Marubeni"). Initial consideration was US$1 million payable to Serica with no contingent or deferred consideration.

In addition to combined initial, deferred and contingent considerations, Serica pays contingent cash consideration to BP, Total E&P and BHP calculated as a percentage (60% in 2018, 50% in 2019 and 40% in each of 2020 and 2021) of net cash flows resulting from the respective field interests acquired. Serica will also pay deferred contingent consideration equal to 30% of their respective shares of future decommissioning costs, reduced by the tax relief that each of BP, Total E&P and BHP Billiton receives on such costs.

The bulk of contingent consideration due under the BKR acquisition agreements is related to future successful field performance and consequently will be either reduced or deferred in the event of production interruptions or lower net cash generation.

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 as they are structured with most of the contingent consideration dependent upon future commodity price and economic environment as well as future asset performance. They involve a range of projections and assumptions related to future operating and development costs, production volumes, oil and gas sales prices, discount rates, estimates of future decommissioning expenditure and taxation. Estimated contingent consideration payments have been calculated at a discount rate of 10% (2019: 11%) and assumed repayment across the remaining 2021 period (2019: 2020-2021 period) of the Net Cash Flow Sharing Deed and other operational timelines that trigger payment of consideration.

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 is not considered feasible. In isolation, the calculations are most sensitive to assumed oil and gas reserves and production profiles and future natural gas prices. Changes in most of the key assumptions noted above would also impact the fair value of assets/liabilities in addition to the contingent consideration.

In calculating the fair value of contingent consideration on the BKR acquisitions payable as at 31 December 2020, assumptions underlying the calculation were updated from 2019. These included updated commodity prices, production profiles, future opex, capex and decommissioning cost estimates, discount rates, proved and probable reserves estimates and risk assessments.

22. Financial liabilities continued

A sensitivity analysis to the gas prices used shows a decrease of 10% in the price used would result in a decrease in the fair value of the contingent consideration by £6.6 million, and an increase of 10% would result in an increase in the fair value of the contingent consideration by £6.6 million.

A sensitivity analysis to the discount rate used shows a decrease in the discount rate used from 10% to 9% would result in an increase in the fair value of the contingent consideration by £4.4 million, and an increase from 10% to 11% would result in a decrease in the fair value of the contingent consideration by £3.9 million.

2020 payments and income statement gain of £31.3 million arising on revaluation of BKR consideration

Short and long-term financial liabilities representing estimated BKR consideration as at 31 December 2019 totalled £155.5 million. During 2020, £21.8 million of BKR contingent and deferred consideration was paid comprising £7.8 million of deferred consideration (paid to Total E&P) £2.6 million of Rhum contingent consideration (paid to BP) and £11.4 million of Net Cash Flow Sharing Deed payments (paid to BP, Total E&P and BHP).

As noted above, the fair value of this financial liability was re-assessed for the 2020 financial period end, with the final estimate of short and long-term liabilities as at 31 December 2020 amounting to £102.4 million (2019: £155.5 million). The overall liability reduction of £53.1 million in 2020 comprised cash payments of £21.8 million and a non-cash revision of £31.3 million recorded as a gain in the Income Statement.

The most significant factor behind the downward revision released to the Income Statement is lower realised gas pricing on amounts paid in respect of 2020 Net Cash Flow payments and other elements of contingent consideration.

Reconciliation of movement in BKR consideration

	Total £000
At 31 December 2019	155,459
Payments made in year	(21,759)
Revisions during the year	(44,659)
Unwinding of discount	13,363
Change in fair value liability	(31,296)
At 31 December 2020	**102,404**
Classified as:	
Current	53,634
Non-current	48,770
	102,404

23. Provisions

	Erskine consideration £000	Decommissioning provision £000	Total £000
At 1 January 2019	1,848	22,647	24,495
Revisions during the year	-	(570)	(570)
Unwinding of discount (note 10)	-	513	513
At 31 December 2019	1,848	22,590	24,438
Revisions during the year	(846)	(243)	(1,089)
Unwinding of discount (note 10)	-	452	452
At 31 December 2020	**1,002**	**22,799**	**23,801**
Classified as:			
Current	1,002	-	1,002
Non-current	-	22,799	22,799
	1,002	**22,799**	**23,801**

Decommissioning provision

Bruce, Keith and Rhum fields

The Group makes full provision for the future costs of decommissioning its production facilities and pipelines on a discounted basis. With respect to the Bruce, Keith and Rhum fields, the decommissioning provision is based on the Group's contractual obligations of 3.75%, 8.33334% and 0% respectively of the decommissioning liabilities rather than the Group's equity interests acquired. The Group's provision represents the present value of decommissioning costs which are expected to be incurred up to 2032 and assumes no further development of the Group's assets. The liability is discounted at a rate of 2% (2019: 2%) and the unwinding of the discount is classified as a finance cost (see note 10).

Erskine field

No provision for decommissioning liabilities for the Erskine field is recorded as at 31 December 2019 or 2020 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.

Erskine consideration payments

Under the terms of the Erskine acquisition, certain contingent payments may be made by Serica related to savings in field operating costs. The current estimated payment for these amounts has been capitalised as an oil and gas asset cost (see note 15). Uncertainties currently exist as to the quantification of any final payment but this is expected to be settled in 2021.

Company

The Company has no provisions.

24. Financial Instruments

The Group's financial instruments comprise cash and cash equivalents, bank loans and borrowings, accounts payable and accounts receivable, derivative financial instruments, deferred consideration 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, during 2019, the BKR facility; given the level of expenditure plans over 2021/22 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 2020	Within 1 year £000	1-2 years £000	2-5 years £000	Total £000
Fixed rate				
Short-term deposits	**53,323**	**–**	**–**	**53,323**
				53,323

	Within 1 year £000	1-2 years £000	2-5 years £000	Total £000
Floating rate				
Cash	**36,010**	**–**	**–**	**36,010**
				36,010

Year ended 31 December 2019

	Within 1 year £000	1-2 years £000	2-5 years £000	Total £000
Fixed rate				
Short-term deposits	59,241	–	–	59,241
				59,241

	Within 1 year £000	1-2 years £000	2-5 years £000	Total £000
Floating rate				
Cash	42,584	–	–	42,584
				42,584

24. Financial Instruments continued

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 2020 £000	Effect on profit before tax 2019 £000
+0.75%	**733**	524
-0.75%	**(733)**	(524)

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

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

Company Year ended 31 December 2020	Within 1 year £000	1-2 years £000	2-5 years £000	Total £000
Fixed rate				
Short-term deposits	**5,861**	**–**	**–**	**5,861**
				5,861

	Within 1 year £000	1-2 years £000	2-5 years £000	Total £000
Floating rate				
Cash	**1,216**	**–**	**–**	**1,216**

Year ended 31 December 2019

	Within 1 year £000	1-2 years £000	2-5 years £000	Total £000
Fixed rate				
Short-term deposits	6,067	–	–	6,067
				6,067

	Within 1 year £000	1-2 years £000	2-5 years £000	Total £000
Floating rate				
Cash	5,281	–	–	5,281

Credit risk

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

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

24. Financial Instruments continued

Foreign currency risk

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

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Cash and cash equivalents:				
US Dollar	**25,064**	30,395	**4,302**	7,783
Norwegian kroner	**6**	6	**–**	–
Euros	**51**	172	**–**	–
Accounts receivable:				
US Dollar	**5,468**	7,397	**17**	10
Trade and other payables:				
US Dollar	**2,069**	2,584	**46**	–

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.

	Effect on profit before tax 2020 £000	Effect on profit before tax 2019 £000
Increase/decrease in foreign exchange rate		
10% strengthening of £ against US$	**(2,846)**	(3,521)
10% weakening of £ against US$	**2,846**	3,521

Liquidity risk

The table below summarises the maturity profile of the Group and Company's financial liabilities at 31 December 2020 based on contractual undiscounted payments. The Group monitors its risk to a potential shortage of funds by monitoring the maturity dates of existing debt.

Group Year ended 31 December 2020	Within 1 year £000	1 to 2 years £000	2 to 5 years £000	>5 years £000	Total £000
Trade and other payables	**32,123**	**–**	**–**	**–**	**32,123**
BKR deferred consideration	**–**	**–**	**–**	**–**	**–**
Derivative financial liabilities	**6,984**	**2,707**	**–**	**–**	**9,691**

Year ended 31 December 2019	Within 1 year £000	1 to 2 years £000	2 to 5 years £000	>5 years £000	Total £000
Trade and other payables	24,600	–	–	–	24,600
BKR deferred consideration	7,405	–	–	–	7,405

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

24. Financial Instruments continued

Company Year ended 31 December 2020	Within 1 year £000	1 to 2 years £000	2 to 5 years £000	Total £000
Trade and other payables	**995**	**–**	**–**	**995**

Year ended 31 December 2019	Within 1 year £000	1 to 2 years £000	2 to 5 years £000	Total £000
Trade and other payables	1,738	–	–	1,738

Commodity price risk

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

At 31 December 2020 Serica held gas price swaps covering 167,000 therms per day for H1 2021 and 192,000 therms per day for H2 2021 at average prices of 37 pence per therm and 36 pence per therm respectively. It further held gas price swaps covering 200,000 therms per day for H1 2022 and 50,000 therms per day for H2 2022 at average prices of 40 pence per therm and 37 pence per therm respectively.

In 2021 to date, Serica has obtained additional gas price swaps covering 50,000 therms per day for H1 2022, 100,000 therms per day for H2 2022 and 50,000 therms per day for Q1 2023 at average prices of 46, 41 and 50 pence per therm respectively.

Fair values of financial assets and liabilities

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

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 2020, capital employed of the Group amounted to £199.8 million (comprised of £199.8 million of equity shareholders' funds and £nil of borrowings), compared to £198.0 million at 31 December 2019 (comprised of £198.0 million of equity shareholders' funds and £nil of borrowings).

At 31 December 2020, capital employed of the Company amounted to £273.8 (comprised of £273.8 million of equity shareholders' funds and £nil of borrowings), compared to £208.6 million at 31 December 2019 (comprised of £208.6 million of equity shareholders' funds and £nil of borrowings).

25. Equity Share Capital

As at 31 December 2020, the share capital of the Company comprised one "A" share of GB£50,000 and 267,809,702 ordinary shares of US$0.10 each. The "A" share has no special rights.

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

Allotted, issued and fully paid: Group	Number	Share capital £000	Share premium £000	Total Share capital £000
As at 1 January 2019	264,757,820	20,862	159,432	180,294
Shares issued	2,472,397	200	891	1,091
As at 1 January 2020	267,230,217	21,062	160,323	181,385
Shares issued	579,486	45	176	221
As at 31 December 2020	**267,809,703**	**21,107**	**160,499**	**181,606**

Allotted, issued and fully paid: Company	Number	Share capital £000	Share premium £000	Total Share capital £000
As at 1 January 2019	264,757,820	20,862	131,733	152,595
Shares issued	2,472,397	200	891	1,091
As at 1 January 2020	267,230,217	21,062	132,624	153,686
Shares issued	579,486	45	176	221
As at 31 December 2020	**267,809,703**	**21,107**	**132,800**	**153,907**

579,486 ordinary shares issued in 2020 under the Company's Share Incentive Plan.187,710 ordinary shares have been issued in 2021 to date and as at 13 April 2021 the issued voting share capital of the Company was 267,997,412 ordinary shares and one "A" share.

26. Additional Cash Flow Information

Analysis of Group net cash Year ended 31 December 2020	1 January 2020 £000	Cash flow £000	Non-cash movements £000	31 December 2020 £000
Cash	**42,584**	**(6,282)**	**(292)**	**36,010**
Short-term deposits	**59,241**	**(5,581)**	**(337)**	**53,323**
	101,825	**(11,863)**	**(629)**	**89,333**

Year ended 31 December 2019	1 January 2019 £000	Cash flow £000	Non-cash movements £000	31 December 2019 £000
Cash	28,371	14,424	(211)	42,584
Short-term deposits	13,732	45,936	(427)	59,241
	42,103	60,360	(638)	101,825

Analysis of Company net cash Year ended 31 December 2020	1 January 2020 £000	Cash flow £000	Non-cash movements £000	31 December 2020 £000
Cash	**5,281**	**(3,963)**	**(101)**	**1,217**
Short-term deposits	**6,067**	**(125)**	**(81)**	**5,861**
	11,348	**(4,088)**	**(182)**	**7,078**

Year ended 31 December 2019	1 January 2019 £000	Cash flow £000	Non-cash movements £000	31 December 2019 £000
Cash	6,372	(1,142)	51	5,281
Short-term deposits	13,338	(7,369)	98	6,067
	19,710	(8,511)	149	11,348

Changes in Group liabilities arising from financing activities Year ended 31 December 2019	1 January 2019 £000	Cash flow £000	Non-cash movements £000	31 December 2019 £000
BKR facility	15,896	(16,539)	643	–

Cash outflows in 2019 comprised £15,673,000 of borrowing repayments and £866,000 of finance costs paid. The BKR facility was fully repaid as at 31 December 2019. No liabilities from financing activities existed during 2020.

27. Share-Based Payments

Share Option Plans

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

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

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

Serica 2005 Option Plan

As at 31 December 2020, 4,578,050 options granted by the Company under the Serica 2005 Option Plan were outstanding. All options awarded under the Serica 2005 Option Plan since November 2009 have a three-year vesting period. When awarding options to Directors, the Remuneration Committee are required to set Performance Conditions in addition to the vesting provisions before vesting can take place. Of the above options, 2,500,000 of these options were granted to Mr Craven Walker in July 2015 at exercise prices higher than the market price at the time of the grant to establish firm performance targets.

No options were granted in 2019 or 2020 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	2020 Number	2020 WAEP £	2019 Number	2019 WAEP £
Outstanding as at 1 January	**4,578,050**	**0.15**	6,465,550	0.25
Exercised during the year	**–**	**–**	(1,887,500)	0.48
Expired during the year	**–**	**–**	–	–
Outstanding as at 31 December	**4,578,050**	**0.15**	4,578,050	0.15
Exercisable as at 31 December	**4,578,050**	**0.15**	4,578,050	0.15

The weighted average remaining contractual life of options outstanding as at 31 December 2020 is 4.0 years (2019: 5.0 years).

For the Serica 2005 option plan, the exercise price for outstanding options at the 2020 year-end ranges from £0.07 to £0.31 (2019: £0.07 to £0.31).

As at 31 December 2020, the following director and employee share options were outstanding:

Expiry Date	Amount	Exercise cost GB£
April 2021	50,000	15,685
January 2022	428,050	91,496
January 2023	200,000	54,500
January 2024	300,000	39,000
June 2025	1,100,000	72,600
July 2025	1,000,000	120,000
July 2025	1,000,000	180,000
July 2025	500,000	120,000
Total	**4,578,050**	

27. Share-Based Payments continued

50,000 options under the plan with an average exercise cost of £0.31 were exercised in January 2021.

Following the approval of the Company's 3p per share dividend to shareholders in 2020, a dividend accrual amount of 116,192 LTIP scheme interests (nil cost) were granted in relation to the 4,578,050 2005 Option Plan awards that had fully vested. These 116,192 LTIP scheme interests were outstanding at 31 December 2020.

Long Term Incentive Plan

The following awards granted to certain Directors and employees under the LTIP (deemed to be granted in November 2017 under IFRS 2) are outstanding as at 31 December 2020.

Director/Employees	Total number of shares granted subject to Deferred Bonus Share Awards
Antony Craven Walker	225,000
Mitch Flegg	225,000
Employees below Board level (in aggregate)	414,000
	864,000

Following the Company's 3p per share dividend to shareholders in 2020, dividend accrual amounts of 21,926 LTIP scheme interests (nil cost) were granted in relation to the 864,000 DSA Plan awards that had fully vested. The combined figure of 885,926 LTIP scheme interests were outstanding at 31 December 2020.

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

Director/Employees	Total number of shares granted subject to Performance Share Awards
Antony Craven Walker	1,500,000
Mitch Flegg	1,500,000
Employees below Board level (in aggregate)	2,250,000
	5,250,000

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. They were not subject to completion of the BKR Acquisition and are exercisable as at 31 December 2020.

Following the Company's 3p per share dividend to shareholders in 2020, dividend accrual amounts of 133,247 LTIP scheme interests (nil cost) were granted in relation to the 5,250,000 PSA Plan awards that had fully vested on 30 November 2020. The combined figure of 5,383,247 LTIP scheme interests were outstanding at 31 December 2020.

27. Share-Based Payments continued

LTIP awards in 2019

In Q1 2019, the Company granted nil-cost Performance Share Awards over 3,735,640 ordinary shares and nil-cost Retention Share Awards over 309,415 ordinary shares, a combined total of 4,045,055 ordinary shares under the LTIP. 203,488 of the 2019 LTIP awards have been cancelled since the initial grant and 3,841,567 of the total awards were outstanding at 31 December 2020. The award was made to members of the Group's executive team, senior management and employees. The awards included a total of 822,134 ordinary shares for the Executive Directors and persons discharging managerial responsibilities as follows:

Director/PDMR	Total number of shares granted subject to Performance Share Awards
Antony Craven Walker	411,067
Mitch Flegg	411,067
	822,134

These awards are subject to vesting criteria based on absolute share price performance over a three-year period and are not exercisable as at 31 December 2020.

LTIP awards in 2020

In May 2020, the Company granted nil-cost Performance Share Awards over 2,669,280 ordinary shares under the LTIP. All of the total awards were outstanding at 31 December 2020. The award was made to members of the Group's executive team, senior management and employees. The awards included a total of 772,200 ordinary shares for the Executive Directors and persons discharging managerial responsibilities as follows:

Director/PDMR	Total number of shares granted subject to Performance Share Awards
Antony Craven Walker	386,100
Mitch Flegg	386,100
	772,200

These awards are subject to vesting criteria based on absolute share price performance over a three-year period and are not exercisable as at 31 December 2020.

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 2019 and 2020 were consistently valued in line with the Company's valuation policy. Assumptions made included a weighted average risk-free interest rate of 2%, no dividend yield, a weighted average expected life of 5 years, and a volatility factor of expected market price of in a range from 60-70%. 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 £0.67 (2019: £0.81). The estimated fair value of options is amortised to expense over the options' vesting period.

£1,862,000 has been charged to the income statement for the year ended 31 December 2020 (2019: £1,094,000) and a similar amount credited to the share-based payments reserve, classified as 'Other reserve' in the Balance Sheet. A charge of £544,000 (2019: £242,000) of the total charge was in respect of key management personnel (defined in note 8).

28. Leases

In March 2019 the Group entered into a three-year lease at its new registered office, 48 George Street, following the expiry of its previous London office lease at 52 George Street, which had been recognised as an operating lease.

Following the adoption of IFRS 16 – Leases on 1 January 2019, the Group recognised 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.

28. Leases continued

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. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group had no right-of use assets as at 31 December 2018. Initial right-of-use assets and lease liabilities of £516,000 were recognised by the Group during 2019 within property, plant and equipment and other liabilities respectively. A depreciation charge of £172,000 (2019: £129,000) was expensed within administrative expenses. £133,000 (2019: £178,000) of cash payments made against the lease liability during 2020 are reflected in the 2020 Group cash flow statement as a cash outflow in financing activities.

29. Capital Commitments and Contingencies

At 31 December 2020, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation assets and oil and gas properties, other than the commitments set out below, amounted to £nil for the Group and £nil for the Company (2019: £nil and £nil respectively).

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

BKR commitments

There are no significant existing capital commitments on the BKR producing fields other than an estimated £11 million net to Serica outstanding at 31 December 2020 on the Rhum R3 well work, expected to be completed during Q2 2021. Net revenues from Serica's share of income from the fields, after net cash flow sharing payments, are expected to cover Serica's retained share of ongoing field expenditures and deferred or contingent consideration due under the respective acquisition agreements. These include £16 million due to BP upon a successful outcome from the Rhum R3 workover, and amounts of up to £7.7 million due to BP in respect of 2021 dependent upon achievement of certain Rhum field production and gas price levels. Further deferred contingent consideration amounts will fall due to each of BP, Total E&P and BHP representing 30% of their retained share of the actual costs of decommissioning the BKR field facilities in existence at completion net of tax relief. In April 2019, Serica posted cash collateral of approximately £12.1 million under BKR decommissioning security arrangements, related to the interests acquired from Marubeni, in support to the issue of letters of credit required. This secured amount is within the Group's cash balances of £89.3 million as at 31 December 2020, but the secured amount was reduced to £6.4 million on 1 January 2021. The funds are freely transferable but alternative collateral would need to be put in place to replace the cash security.

Other commitments

The Columbus development is underway with first gas expected in Q4 2021. Total development expenditure net to Serica's share outstanding at 31 December 2020 is estimated at approximately £15 million.

The Group has no significant exploration commitments apart from the well on North Eigg prospect to be drilled by the end of the three-year licence term in December 2022. Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK.

Other

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

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

30. Related Party Transactions and Transactions with Directors

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

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

31. Post Balance Sheet Events

On 21 January 2021, Serica announced that it had received a renewed License and secondary sanctions assurance from the US Office of Foreign Assets Control ("OFAC") relating to the North Sea Rhum field, in which the Company has a 50% interest. OFAC issued the renewed License for the period up to 31 January 2023. The License may be renewed on application by Serica assuming the conditions continue to be met.

On 17 March 2021 Serica announced the spud of the Columbus 23/16f-CDev1 development well in the UK Central North Sea which is being drilled to a total depth of 17,600ft and will include a 5,600ft horizontal section. The well is being drilled with the Maersk Resilient Heavy Duty Jack Up rig and is expected to take around 70 days.

GLOSSARY

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

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Listing

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Website

www.serica-energy.com

Company Number

5450950

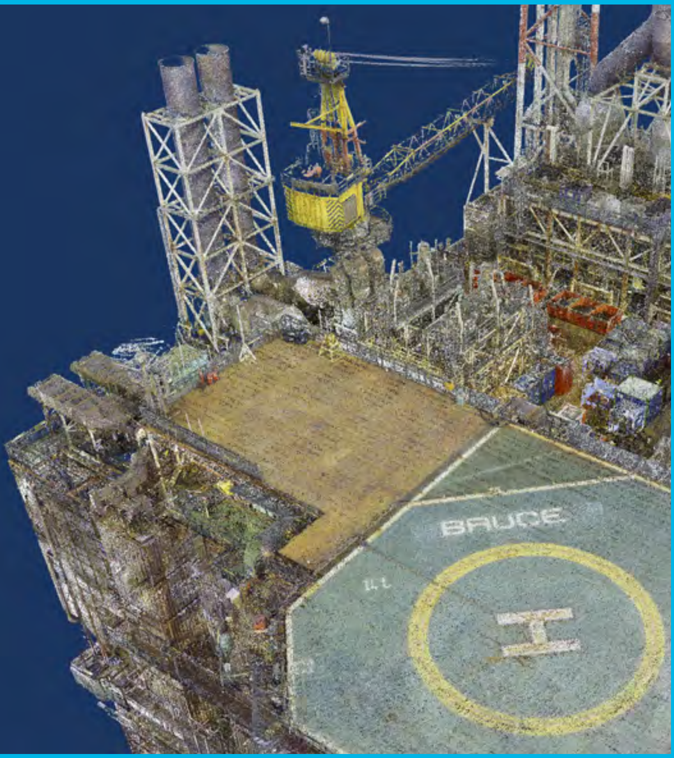
INVESTING IN A DIGITAL TWIN TO ADVANCE EFFICIENCY

In 2020 work commenced on a digital survey of our BKR asset. After 40 days, billions of laser scan measurements from over 5,500 scan locations had been uploaded to create a single Point Cloud model and along with hundreds of thousands of HD digital images our Digital Twin was born!

A millimetre accurate model of every aspect of our Bruce platform is now accessible to staff across all disciplines from any location via a web-based app. The many benefits of the digital twin include:

- reduction of platform visits,
- remote design for fabrication of equipment,
- detailed assessment of condition of equipment and pipework.

The digital twin is now an integral part of our working toolbox and Serica personnel have already identified multiple future applications, all of which will help us to work more efficiently.



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