Chairman's 2017 AGM Statement

At the Annual General Meeting on Thursday 29th June 2017 Tony Craven Walker, Serica's Chairman, made the following comments:

At the Annual General Meeting this time last year I gave a pretty upbeat view of how we saw the year ahead. This was notwithstanding that we were then shut-in to resolve a problem with wax build up in the main Lomond condensate export line, were in the midst of severe downward pressures on oil prices and surrounded by general gloom which abounded in the North Sea. I am delighted that our optimism proved to be well founded and I am sure that shareholders will be pleased with the clear progress that the Company has made over the past twelve months.

The Company's strength and balance sheet health has grown significantly. This is in no small part due to the focus which a small company such as Serica can bring to problem solving and the enthusiasm with which our team has responded to new opportunities and new challenges which presented themselves. It is this ability for a small company to add value that is becoming recognised in the mature areas of the North Sea and which provides a win-win situation between the major operators and the smaller, more cost efficient and more focused independent.

The share price has responded in line with our performance and I hope is an appropriate reward for our shareholders' patience. The Company has grown in line with the share price and is now nearly three times larger than this time last year, reflecting both the Company's increasing cash resources and the Company's growth prospects. Our healthy cash position and our solid underlying performance has raised Serica's industry profile substantially and gives us a very strong platform from which we can add to our assets and build further value growth for shareholders.

It gives us even greater satisfaction that this performance has been achieved against the continuing backdrop of weak oil and gas prices which have fallen back in the past couple of months. The Company does not base its investment programme on an assumption of rising oil prices and, whilst that would be very nice, we try to run our business with a very conservative approach to future prices. Our focus in the current environment is on identifying where we believe value can be added and reserve life extended through cost reduction, improved efficiencies and working closely with our partners. The business has got to perform almost regardless of oil price vagaries. Obviously there is a minimum price that we would like to see, and we do take steps to hedge on the downside when the price for doing so is not too great, but the focus is on cost reduction and maintenance of a healthy net cash balance to smooth out the bumps.

This strategy has worked well with Erskine and we hope to see continuing good returns. We have been producing at a cost per barrel to Serica of approximately $14 and this level can be expected to be maintained if we continue to produce at recent efficiencies. Shareholders might be interested to know that, since purchasing Erskine, when it was projected that Serica's share of remaining reserves was 3.3 million barrels of oil equivalent, we have produced and sold 1.7 million barrels of oil equivalent to end May but remaining reserves net to Serica from June onwards are still estimated to be 3.3 million barrels of oil equivalent. This demonstrates the potential for extending reserves and adding value if costs can be constrained and efficiencies improved.

Erskine has clearly been a success for us and we expect it to continue. Since the start of the year Serica's share of daily production through to the end of May averaged approximately 3,100 barrels of oil equivalent, approximately 50% gas and 50% condensate.

During this five month period we produced a total of 465,000 barrels of oil equivalent with Brent oil prices averaging $53 per barrel and NBP gas prices averaging 44 pence per therm. Production this month has been at a lower rate in order to prepare the export pipeline from Lomond for a four day dewaxing soak. We shall be holding at this lower rate for a further month pending further dewax treatment and a planned two week routine maintenance shut-down planned for August. Notwithstanding this temporary lowering of production we are retaining expectations in the 2,500 to 2,750 barrels equivalent per day for the full year outturn, reducing the top end of the range. With the strong cash flow since we restarted production last August we elected to pay the third tranche of consideration due to BP early. After this payment, amounting to $2.9 million, net cash at 28 June stood at $30.5 million.

We work very closely with Chevron, our operator at Erskine, and with Shell, who operate the Lomond platform where the Lomond fluids are processed, to achieve this performance. Both those two companies share their thoughts fully with us and treat us as a valuable partner. It is this close collaboration which yields the sort of results we are seeing at Erksine and helps maintain low cost and high efficiencies. Chrysaor is shortly to replace Shell as the new operator of Lomond. We welcome them and look forward to continuing this close collaboration to improve and extend Erskine production. We are also discussing with Chrysaor the possibilities of Columbus being developed across Lomond which could bring significant benefits for extending facilities life and improving the export condensate blend if we decide to go that route. This is a goal which has long eluded us and is being evaluated in parallel with an alternative route through the Shell operated Shearwater platform.

Finally to the future. In addition to moving Columbus to a development decision we are now seeing real progress toward the drilling of the Rowallan well, a robust prospect which lies in our core area and in which we have a fully carried 15% interest. The partners have agreed to undertake the site survey this summer and to order long-lead items. ENI, as operator of the block, is seeking to secure a rig for the well to be drilled next year. Whilst it would be premature to assume a successful outcome, a discovery would be a very material event for Serica and we are excited by the potential. We also had a carried interest in the much smaller Doyle prospect in the East Irish Sea but, as anticipated in my Statement at the time of the Annual Report, the Operator, Zennor, was not able to identify a new partner following the withdrawal of Centrica and the block has therefore been relinquished. A disappointing outcome for us although the prospect was higher risk. In Namibia and Ireland we have received licence extensions and continue to seek ways in which we can make progress. These are frontier areas and, whilst they show material prospectivity and we are seeing increasing interest offshore Ireland, frontier exploration is not at the top of the list for international oil companies whilst oil prices remain low. We have very limited commitments in these licences, good terms and good relationships with the host governments.

We are taking these projects forward but Serica's prime focus at the moment is to build on the momentum that our Erskine interest has given us and to seek further production where we have some degree of control and believe we can add value for shareholders through applying our expertise and utilising our tax loss position to the full. The aim would also be to diversify our production to reduce the dependence on Erskine and achieve a better balance of risk and growth opportunity for shareholders.

In my statement accompanying the Annual Report I said that we were reviewing a number of opportunities meeting these objectives. This exercise is ongoing and, whilst there is absolutely no guarantee that we will be successful in these endeavours, nor when they will occur, we do have a team that can achieve it and I am hopeful of a successful outcome which will contribute to greater strength and increased opportunity for the Company. A significant transaction echoing that of Erskine would also have the benefit of creating financing capacity and achieving a scale which would enable us to attract new expertise to join us and provide the basis for succession at board level which I and my co-directors recognise will be required at some point. In the meantime I do believe that we have an existing strong asset portfolio which will continue to perform if we work hard at it and I am looking forward to being able to report even better progress this time next year.

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