



Chairman's 2018 AGM Statement

Each year at our Annual General Meetings we try to give shareholders an in depth review not only of our results for the previous year but also an indication of how we see future prospects. This year is no exception and Mitch will be giving a full overview of all our current activities shortly.

I hope that shareholders will agree that the past twelve months have been both exciting and rewarding. The Company has grown in that period from a relatively small North Sea producer reliant upon a single non-operated producing field to a company poised to become a significant offshore operator and a leading British Independent producing from four fields. Such progress cannot be achieved without taking on challenges and uncertainties but with these challenges and uncertainties come opportunity. The criteria required to achieve are integrity, patience and perseverance and Serica has these in abundance.

The agreement announced at the end of November last year to purchase interests in the Bruce, Keith and Rhum fields from BP was realised after months of negotiation. It is important, not only in establishing Serica as a leading British offshore operator but also in providing the means to extend and enhance the recovery of BKR reserves. The lower operating costs together with increased focus and commitment that Serica will bring to the BKR operations will provide the basis for new investment and greater recovery. The transaction is in line with the growing trend in the North Sea with smaller companies, led by experienced teams, taking over from major producers in a rapidly maturing province. Last year's transactions by Chrysaor, purchasing major assets from Shell, and Enquest, purchasing Magnus and the Sullom Voe terminal from BP, are two good examples. Serica is joining the same group of emerging Independent operators. We have the experience, capability and focus to make this transition and become a leading player with the potential to expand further. Other than a small advance against the pre-payment facility arranged as part of the BKR deal we have no debt and, once the transaction completes, we believe that there will be substantial demand for our shares. Coupled with anticipated increasing cash resources once Erskine restarts in September and full benefit from BKR revenues we expect to have significant financing capacity.

The transaction with BP has been structured as an earn-in. BP is retaining a major stake in the future field performance and the growth which both companies believe that Serica can bring to the BKR assets. This demonstrates significant confidence in Serica's capabilities by BP and we intend to reward that confidence with increased asset performance which will benefit all shareholders. The deal structure also protects Serica against certain risks associated with a transaction of this nature and is therefore carefully balanced from a risk/reward point of view, again to shareholder benefit.

At the end of November we published the Admission Document which contained a lot of information on BKR and Serica's other assets and I hope that shareholders found that document helpful. In particular, it premised a lengthy transition period to enable Serica to put in place all of the requirements for a safe and efficient transfer of operations, including the transfer of 114 personnel from BP to Serica, the opening of new offices in Aberdeen and the recruiting of new employees. I am pleased to say that all of the very substantial work streams that this entails are going well to plan for completion currently estimated around the end of the third quarter. This is slightly later than originally hoped but does not affect the financial impact of the transaction since Serica's participating interest in the BKR cash

flow takes effect from 1 January this year. As Mitch will report, both production and product prices have been consistently strong so far this year and Serica is expecting to derive full benefit of this strong performance since the start of the year when we reach completion.

We are confident that we will bring this transaction to a successful completion later this year but still have a number of processes to go through. The Admission Document sets out that we are required to secure various consents and approvals from UK government agencies and field partners in respect of the transfer of operations from BP to Serica and also from the US authorities in respect of operations on the Rhum field.

These processes are ongoing. We have received strong support from the Oil and Gas Authority who see the need for more agile and focused independents to extend and enhance the life of maturing UK offshore assets and are working to meet both their and the Department for Business, Energy & Industrial Strategy's requirements for the change of licensee and change of operator. Partners, particularly in the Bruce and Keith fields, have been slow to respond with their requirements to provide consent but we are now fully engaged with them.

A greater challenge is the need to obtain sanctions relief in respect of Rhum. The Rhum field is 50% owned by BP and 50% owned by Iranian Oil Company (UK) Limited whose ultimate parent is the National Iranian Oil Company. Following the signing of the Iran Nuclear deal by Iran, US, Russia, China, the European Union, Britain, France and Germany all sanctions against Iran were lifted from January 2016 other than Primary US sanctions which require a licence to be obtained from the US Office of Foreign Assets Control in order to use US persons, companies or equipment on operations involving Iranian entities. In the case of the Rhum field such a licence was granted to BP expiring at the end of September. Most of the US persons employed on the field have been replaced with non-US persons but there remain a few items which are hard to replace, such as the sub-sea wellheads. It is therefore a condition of the BKR transaction that Serica obtain a licence in respect of those items beyond that date.

On 8 May President Trump announced that the US Government would be withdrawing from the Iran Nuclear Deal and re-introducing more extensive sanctions on operations involving Iranian entities. Although no other signatory to the Iran Nuclear Deal has withdrawn this changes the basis for OFAC licences and obviously affects Rhum. We are evaluating the new requirements and are reviewing various possible solutions together with our US advisors. Suffice to say that all parties wish to see Rhum operations continuing and all parties are seeking a constructive solution which is capable of maintaining Britain's offshore gas production and meeting the requirements of the US authorities. Together with Bruce and Keith, the Rhum field contributes approximately 5% of British offshore gas production and is therefore clearly an important UK strategic national asset. The position is complex but we are receiving full UK Government support and I am hopeful that, with that support, we will achieve a positive outcome.

On the staffing side the Company's plans have been received with a great deal of interest and enthusiasm by those employees transferring to Serica and we are delighted with the support they are giving us. We are equally delighted with both the number and the quality of new staff who have applied to join us. Serica is a vibrant company with a great future.

The BKR deal is transformational for Serica but we must not forget that we also have a valuable production resource in Erskine. Last year's strong Erskine performance resulted in us reporting full year profit of US\$17.1 million and a year-end cash balance of US\$34 million. Notwithstanding Erskine production being suspended for the past five months due to closure of the Lomond to Everest condensate export line caused by wax deposits, Serica's cash

currently stands at approximately US\$21 million after payment this week of the fourth and final tranche due to BP for the Erskine transaction.

The temporary suspension of Erskine production pending pipeline replacement is unhelpful, coming at a time of major corporate expansion and new investment for Serica, and profits for this year, before adjusting for any post-completion benefit from the BKR transaction, are clearly going to be significantly less than last year's record figure as a consequence. We are also expecting further cash outflow before Erskine restarts in September and before the BKR transaction completes, largely reflecting the significant investment we are making in preparation for BKR. However, the expectation is that next year will see the full benefit of the BKR transaction and the renewed Erskine export route flowing through to the Income statement with our cash position increasing rapidly from completion of both projects later this year.

I think that I have now said enough. I will leave it to Mitch to provide a lot more background and to discuss Columbus and our Rowallan well planned for later this year. Serica is on the cusp of a major transformation and I hope that shareholders can join with me in thanking the Serica team that is making that possible. We still have a little way to go yet to pass the remaining hurdles but we are putting every ounce of effort into that and have strong support.

As to the future, our immediate focus is to resolve the Rhum sanctions issue, obtain the outstanding consents required and complete the BKR deal. As we near completion we shall be looking at ways in which we can use our untapped financing capacity to add new assets through acquisition to complement what will be our strong cash flow profile and operating capability. We also have the Columbus development, the Rowallan drilling and our recent licence awards to look forward to as well as trying to move forward our assets in Namibia and Ireland.

With that introduction now on to the presentation which will be given by Mitch Flegg, our Chief Executive Officer.

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