Chairman's 2019 AGM Statement

Good afternoon ladies and gentlemen.

On behalf of the Board of Directors I would like to welcome you to Serica's Annual General Meeting which is being held today at the offices of Instinctif, our Investor Relations advisors. It is now 1.00pm, a quorum is present and I shall therefore open the meeting which is being held to consider and, if thought fit, pass the resolutions set out in the notice of the meeting which you will have received. I will chair the meeting.

Before proceeding, I would like to welcome the Directors who have joined the Board since last year's annual general meeting - Trevor Garlick and Malcolm Webb. I am delighted that they will be working with us to take the Company forward. Both come with considerable industry experience. Trevor was BP's Regional President for UK and Norway from 2009 to 2016 and is therefore very familiar with the assets which are now owned by Serica. We will therefore benefit enormously from his insight. Malcolm was Chief Executive of Oil & Gas UK, the lead association for the UK oil and gas industry, from 2004 to 2015 and, as such, has wide experience of the challenges facing the industry. His knowledge of the UK offshore industry will be invaluable to us. We welcome them both to the Board.

I hope that you will all agree that Serica has had a remarkable year. This has been a great team effort and I would like to single out a few who have made it possible.

I want to start with extending personal thanks and gratitude to Neil Pike, our Senior Independent Director, and Ian Vann, both of whom are here today. Their support and encouragement provided much needed stability during what has been a remarkable period of turnaround for the Company and has been an inspiration for me. Serica's success over the past four years, during which the Company has grown exponentially, owes a great deal to their experience and the complete commitment they gave to the task in hand which I believe has helped us to create a vibrant, profitable, strong and growing company with an exciting future. I am sure that shareholders will want me to give them a vote of thanks.

We are conscious, as the Company continues to expand, of the need to keep pace with environmental, social and governance requirements that come with expansion. That includes Board make-up. Several of us have been on the board for longer than the normal recommended time to be considered independent but I hope that you will agree that your Board has delivered fairly spectacular results. Now, with the major increase in the Company's activities and the recent appointment of Trevor and Malcolm to the Board, we have set in train the succession planning required of good governance. As we progress on our strategy and achieve further steps to build on the strong asset base that we have created we will be looking to bring new talent, experience, and diversity to the Board. I imagine therefore that you will see the Board evolve over the course of the coming year to ensure that we have a Board appropriate to and befitting a vibrant, ambitious and talented company.

Thanks are also due to Mitch who rejoined the Board on announcement of the Bruce, Keith and Rhum transaction. This time last year we were not a production operator and we certainly did not have the responsibility of managing assets as complex as those which we now manage. As CEO, Mitch has steered the Company through a remarkably smooth transition, from the very small team that we were back in November 2017, when he rejoined the Board, to the technically highly competent operating company that we are today with over 140 staff and a brand new operational headquarters in Aberdeen. That the transfer of complex operations from BP to Serica was managed without as much as a blip is very much due to Mitch and the support that he had in that process from BP and the offshore and onshore teams in Aberdeen and London.

During the transition process we were also negotiating our way through labyrinthine twists and turns to solve incredibly complicated political and commercial issues relating to the assets we were purchasing so I would like to thank the team that helped us accomplish that whilst also simultaneously moving forward our other projects, Columbus and Erskine. Andy Bell (VP Finance), Clara Altobell (VP Technical) and Mike Killeen (VP Operations) are all here today as are Danny Fewkes, our Group Treasurer, Carol Stewart (BKR Business Manager) and Fergus Jenkins (Manager of Projects). Stephen Lambert, our VP Commercial, had hoped to be here but he is out attending meetings on behalf of the Company. All of them were massively involved during the six month period last year when we had so many things to juggle. I am sure that they will be more than happy to relate their war stories when we have coffee after the meeting.

Finally, I would like to thank our shareholders. We do read the bulletin boards and, whilst we smile at some of the comments and are sometimes frustrated that we cannot respond, we do see the level of support that comes through and it gives us a fillip when we get the occasional dark day. Whilst we, the Board, focus on the assets and strategy, it does help if we know that we have general shareholder support.

Enough now of introductions. Let us now look to the future. As is our usual custom Mitch will be giving a full overview of all our current activities and future prospects but first I would like to give a general overview coupled with a commentary on some of the issues which affect us today.

Those of you who were shareholders in the latter part of last year will recall the uncertainties and complexities we were facing to complete the transaction to purchase BP's interests in the Bruce, Keith and Rhum fields. These are amongst some of the largest offshore operating facilities in the North Sea offering great potential for improved and extended performance but were facing difficulties with partner misalignments and, in the case of Rhum, the possibility of shut-down as a result of US policies against Iran and the presence of an Iranian partner in the field. To purchase those assets, and the subsequent purchases of further interests in Bruce and Keith from Total, BHP and Marubeni, was a pretty ambitious target for Serica. Together, Bruce, Keith and Rhum contribute over 5% of Britain's offshore gas production. We owe a great deal to the imagination of BP, Total, BHP and Marubeni and the support of many government agencies that we were able to resolve the partnership issues in Rhum and the misalignments between the fields and bring the transaction to a very successful conclusion.

But we have to keep our eye on the ball and make sure that the structures put in place are resilient in a complex world. We have a licence from the US Office of Foreign Assets Control, known as OFAC, that enables us to maintain Rhum operations. As part of the process to obtain the licence a robust and secure legal structure, which has removed any Iranian interest, financial or decision making, from the Rhum field for the duration of US imposed sanctions on Iran, has been put in place. The licence was granted for one year which expires at the end of October so we are now in the process of submitting an application to renew. We do so at a time when US/Iranian relations have deteriorated even further but, due to the ownership structure which has been put in place, ensuring no Iranian involvement, either financially or operationally in the Rhum field whilst US sanctions prevail, we believe that we continue to meet OFAC requirements. Clearly there is always the unknown to contend with and sudden changes in sentiment but we will be embarking on our application in the next couple of weeks and are hopeful that we will obtain a licence renewal to enable these important UK assets to continue producing for the ongoing benefit of the UK economy.

The result of the acquisition of the Bruce, Keith and Rhum assets is the transformation of Serica's financial position and our prospects. Our reserves last year grew 20-fold whilst net production year-on-year grew over 10-fold. As Mitch will report, production through the first half of this year has been even stronger. Our balance sheet and financial position has equally been totally repositioned. At the year-end we reported cash balances of US$55 million. These had grown to just under US$92 million by end March and have now grown further to approximately US$112 million as at 31 May. We have no debt other than US$20 million drawings under a gas pre-payment facility with BP which we expect to repay over the next eight months.

At the end of this year our share of net-cash flows from Bruce, Keith and Rhum will increase by approximately 20% as a result of the agreements under which we purchased BP, Total and BHPs' interests in the fields. This year our share is 50% . Next year and for the year 2021 it will be 60%. After that we will have 100%. This increasing share of net-cash flows from the fields is expected to provide further underpinning in addition to any additional performance we are able to get from the fields.

Our significantly strengthened financial position has been achieved notwithstanding a backdrop of weaker UK gas prices which have fallen significantly over recent months from the exceptional highs of last year. Increased production levels from both the Erskine field and the Bruce, Keith and Rhum fields, combined with corresponding reductions in unit operating costs, have helped offset the price decline and contribute to our financial resilience. In addition, some 37% of our estimated 2019 gas production, after adjusting for net cash flow sharing, is hedged at 35 pence/therm. With oil prices also producing a strong counterbalance, this provides us with some built-in protection against low gas prices.

On the subject of hedging, the Company has no borrowings other than under the pre-payment facility with BP and the major part of its liabilities are effectively hedged through the net cash flow sharing structure of the transactions by which we acquired our Bruce, Keith and Rhum assets. Through production increases and cost reductions we have reduced our lifting costs per barrel to improve production margins as Mitch will explain in his presentation. Our exposure to commodity price fluctuations is therefore less than for other companies in the sector who also have debt to contend with. We, therefore, have to weigh the cost of further hedging against the benefits that it brings. It is an extra cost to the Company to insure against the limited fixed liability risks that the Company currently has. We have taken hedges to balance the forward sales that we agreed with BP but our risks are mainly portfolio concentration and operational and we will be seeking to address these through efforts to expand our portfolio.

I have mentioned already our commitment to meeting best practice in environment, social and governance issues. Serica has only been a major offshore production operator for seven months and we have not yet been able fully to establish our environmental credentials but, as a socially responsible company, we welcome the UK Government's objectives for net-zero greenhouse gas emissions by 2050 and will be looking to play our full role in this transition process.

I can remember, as a small boy going to school in London in the 1950's, wearing a face mask on some days and not being able to see my hand in front of my face. Those were the days of coal fires in every house. That was the start of weaning the nation off coal and onto gas but it was not until 40 years later when the conversion finally took place from coal to natural gas for power generation that we started to see environmental improvement. The conversion from coal to natural gas was fraught politically, with the great coal strikes of the 1970's marking the start of the phasing out of coal mining, and even as late as the early 1980's and early 1990's there were major restrictions against using natural gas, a much cleaner fuel, for power generation.

Like all great policy measures these things take time to implement and planning for energy needs, whilst also looking after the environment, takes careful management. Over the last ten years we have seen a dramatic falloff in the use of coal. Five years ago, coal was generating more than 40% of the UK's electricity supplies but this had fallen to under 2% in the first half of 2019 according to published statistics[1]. Wind and other renewables have taken up a lot of the ground and during the last quarter of 2018 provided some 37% of the UK's power generation needs, with natural gas providing just slightly more[2]. However, it has been the availability of natural gas to provide a relatively clean and constantly available source for power generation and heating which has assisted this transition from coal to new cleaner power generation technologies to get underway.

We are now entering the final period towards a net-zero greenhouse gas emission world and the UK is at the forefront. To reach this target we believe that natural gas will continue to be an important factor in the ongoing transition process, particularly against the backdrop of uncertainties with nuclear generation. The International Energy Agency forecasts that gas production in Europe will fall some 20% over the next six years from 2018 levels, due largely to declines at Groningen in The Netherlands, but also forecasts European gas imports to rise materially over the same period. A large percentage of the shortfall is expected by the Agency to be offset by LNG imports but, as is made clear in the Committee on Climate Change report published last month, we expect the policy in the UK to be on reducing demand for imported fossil fuels with an emphasis on indigenous gas production playing an important part in the UK's objectives to achieve 2050 target for net zero greenhouse gas emissions[3].

With our current product mix focused on gas, we believe that Serica is in a good position to participate fully in this scenario. We see our immediate role as playing a part in providing a clean energy supply whilst major energy companies tackle the technological challenges in the moves to switch away from fossil fuels but we fully intend to play our part in the transition where we can. This will be a step by step process. We cannot achieve everything overnight but we take the challenge seriously. It is a pity that we are not able to take shareholders offshore to visit our production facilities as you would see the efforts that we already make to ensure the cleanest possible operating conditions and the focus which we place on both safety and the environment. As we settle fully into our operations we shall be looking to see how we can measure and report our performance in these areas to shareholders as well as finding ways to improve.

Five years ago, with the agreement to purchase an 18% interest in the Erskine field in June 2014, we took the first steps in the implementation of our growth strategy. This was aimed at acquiring assets in North Sea producing fields where we felt we could contribute to unearthing untapped value. Following the Bruce, Keith and Rhum acquisitions Serica is now a very strong force in the world of emerging British companies with the skills and capabilities required to bring new life to existing fields and infrastructure and bring considerable economic

[1] Imperial College
[2] Department of Business, Energy and Industrial Strategy (BEIS)
[3] Page 252 of the Committee on Climate Change Report, May 2019

benefit to the UK. We are also one of the very few publicly quoted players. It has taken five years to achieve this but the achievement is obvious.

However, we have only reached the half way stage in this strategy. Serica now has the balance sheet, the cash flow and the operating capacity to build on the strong platform for growth that we have established. We will also be a UK tax-payer next year. I tell many people this as I view it as a sure sign of achievement. It means we are generating taxable profits, clearly an indicator of success, but it also gives us, combined with strong cash generation, a great opportunity to grow further value efficiently through new investment in UK projects. Although we are seeking ways in which we can keep a footprint overseas, such as in Namibia where we still feel there are opportunities, we are looking to achieve the next growth phase through UK focused M&A which has the potential advantage of using our tax position to maximum effect as well as diversifying risk from our existing assets. All this is in addition to the many ways in which we can build on our operating capability and the infrastructure that we now own to enhance value. Mitch will be covering this in his presentation but, if we play it right, I believe that the Company is set for an exciting future.

Finally, in my statement which accompanied the Annual Report, I referred to generating financial returns for shareholders commensurate with our value growth objectives. By that I meant, of course, the potential for a dividend policy. Serica is still a small company and we are exposed to sudden changes in the environment in which we work, whether these be political, fiscal or operational, commodity pricing or simply technical hazard. We will not be commencing dividends until the Board is comfortable that the Company has the resources to do that on an ongoing basis as well as seeking growth opportunities and simultaneously providing for an uncertain world. Our prime objective is to increase shareholder value both through technical excellence and through acquisition in order to diversify risk, replenish our basket of assets and fully utilise the Company's operational, fiscal and financial strengths. However, since completing the Bruce, Keith and Rhum transactions last November and with Erskine now performing at its true capability we have rebuilt our cash resources to the sort of level that we feel starts to give us the robustness to take on most challenges. All being well, these cash balances will continue to rise through the rest of this year and we should be in an even stronger position as we enter 2020. Against this background the Board is hopeful that, early next year, we will be able to review the possibility of a dividend policy at a sustainable level which also gives us the flexibility to meet our prime focus to see further growth.

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