

Chairman's 2023 AGM Statement

Serica has been and continues to be one of the most successful of the British independents, bringing considerable benefits to the UK economy through engineering excellence and innovation particularly now the UK Sector of the North Sea has reached its mature stage and needs careful management to optimise the remaining resources. Our production levels enable us to pay the dividends we are now seeing but Serica has also replaced that production year on year with offsetting reserve increases, extending the life of valuable offshore assets and related infrastructure. This success has brought very material value for all Serica stakeholders, the UK government, employees and shareholders alike. We are proud of that and we expect and hope that this will continue.

However, since our Annual General Meeting of last year, Serica and other British Independent Oil and Gas producers have had to meet a whirlwind of anti-oil and gas sentiment, not limited to climate change protestors but also from our governing parties who seem intent on scoring points against each other with the UK industry caught in the cross-fire. The Tory Party introducing more and more complicated and penalising tax changes, the latest of which, announced only three weeks ago, will do little to restore confidence, and the Labour Party by advocating even harsher taxation policies and stating that it will constrain new investment in an industry which has been fundamental to the UK economy, and particularly to the Scottish economy, for as long as I have been working for it – and that is a very long time! All of this is having a damaging and totally illogical impact on a business essential to Scotland, to the UK Treasury, to UK security and the economy and fundamental to the changing energy scene. However, I believe that sense and reality will prevail. It has to. It always does.

The UK is fortunate to have the resources of the North Sea, be it oil and gas, wind energy or wave energy and it is essential, for the country to benefit, that government provides a stable and supportive backdrop to ensure that all these resources are managed responsibly and that companies, like Serica, who have the technical skills and experience offshore are encouraged to harness and optimise the benefits for everyone. There are ways of doing this but it needs a far better informed, more enlightened and, dare I say it, braver and longer term approach from government and the powers that be if the opportunity and the vital supply chain for offshore projects are not to be snuffed out and critical infrastructure protected. The industry will need some reversal of policy.

At the moment the skill sets, entrepreneurial capabilities and confidence of UK based North Sea companies are being severely hampered by three waves of tax changes in 12 months. This is forecast as having a very significant negative impact on the industry, which is largely based in Scotland and the North East, with potentially negative long-term effects for those areas in particular as the UK loses skills and investment so essential in providing so many jobs in the North. Counter intuitively, as well as hitting Scotland and the North East and ultimately reducing UK Treasury returns, it also has a negative impact on the UK's claim to be focused on reducing carbon emissions. As has repeatedly been said, replacing North Sea production with more carbon intensive overseas imports (elsewhere it is called "greenwashing") simply increases overall carbon emissions in addition to hitting cash flows which could be used in new energy technologies if the tax system was less punitive. A double if not triple whammy!

Serica like all the other independents has been hit by these tax changes. These affect the smaller British based independent oil companies far more than the major international companies and puts us at a real disadvantage. We now pay tax at a far higher rate than pretty well every other industry or business in the UK even though we take on huge risk, have not benefited hugely from the recent price spikes - gas prices are currently around 90% lower

than the peak that they rose to briefly and oil prices are 42% lower whilst taxes are 87% higher - and have had to manage ourselves through loss making lows during the Covid pandemic only just over two years ago. The industry faces just as much uncertainty, reinvestment need and investment in new technologies as do other companies but now pays 3 times the normal industry rates of tax whilst also having to contend with ring-fencing which limits investment for energy diversity.

But we are currently in a pre-election period and I believe this is coloured by distorted short-term position taking and point scoring leaving industry, as I have said before, in the cross-fire. The reality is that, post the election, any new government will have to reverse a lot of the changes and announcements recently made if we are to prevent premature termination of existing offshore infrastructure and avoid longer term damage to the industry and the UK economy. This can be done without affecting net zero targets but as part of the transition in which we are all involved. I am optimistic that sense and reality will prevail.

In the meantime, we intend to continue to try to get better appreciation of the very important role that the offshore industry, of which Serica is a significant part, and the many people who work in it, play in the UK economy and see if we can't get a more positive and supportive approach from all parties. There is still much that can be achieved to make the UK, and Scotland in particular, the centre of energy technology of all kinds, both old and new but only if there is a more enlightened, less prejudicial, less short-term and more supportive approach to existing industry. It is an essential part of the transition that we are all trying to make happen.

That gives the backdrop.

In order to achieve greater scale and diversity to meet these challenges and build for the future, Serica announced the acquisition of Tailwind Energy at the end of last year and completed the transaction in March. Mitch will speak shortly on the benefits that we are already seeing with a stronger and more diversified company but I and the Serica Board would like to thank shareholders for their support in approving the transaction, particularly as we were having to shoulder the negative effects of the UK tax changes at the same time. We shall continue to review our strategy against the current political backdrop so that we can continue to provide shareholders with value accretive returns.

That transaction has placed Serica amongst the top 10 UK offshore producers. We provide the UK with over 5% of its offshore gas supplies as well as now having material oil reserves and production. We have established ourselves as one of the larger wholly British independent offshore production operators with an enviable record of reserve replacement. Our teams in London, Aberdeen and offshore have seen us safely through the recent Covid outbreak and have taken us from strength to strength. All of us thank them for what they have achieved and continue to achieve.

As previously stated I am stepping down today from the Board and as Chair, and this meeting will be my last, but I am proud of the Company and what has been achieved.

I joined the Board as non-executive Chairman in 2004 when it was a Canadian listed company to see it through its early days as a company exploring offshore for oil and gas in the UK and Indonesia. I was expecting to stay for only a couple of years to help the company through its early stages. How wrong I was. Although we had a couple of successes in the early years, including the development of the Kambuna field in Indonesia and the discovery of the Columbus field in the UK, both as operator, neither was large enough to provide a basis upon

which to build a business. It became evident that a complete change of strategy was required and, in 2014, we embarked upon the new strategy which has proven today to be so successful.

That year saw a collapse in oil prices but that provided an opportunity as major companies repositioned and gave us the openings to become what we are today, a leading offshore production operator.

In 2015 we reached the nadir with our share price hitting a low of 2.5 pence per share and there were few of us left standing if I can single out Clara Altobell, Andy Bell, Danny Fewkes and Sam Cooper. All are here today and deserve shareholder thanks for helping to steer the Company through those difficult days. What that small team achieved is incredible. In mid-2015 we completed the Erskine deal and this was followed by the BKR announcement in 2017, completed in 2018. With Mitch coming back to help completion and take the role of CEO and with the team joining us from BP we had the foundations for growth that we were looking for. As I prepare to stand down I would like to thank them all. In particular Mike Killeen who runs the offshore operations, Carol Stewart our North Sea Business Manager, Fergus Jenkins who heads up Technical and Stephen Lambert who heads up Legal and External Relations.

Serica's success would not have been possible without them or their supporting teams in London, Aberdeen and offshore. Their achievement has been remarkable. Today our share price is 100 times what it was back in 2015 and we pay a significant dividend. That represents a compound growth rate for shareholders of over 75% per annum over the past eight years excluding the dividend. That this has been achieved without raising any capital from shareholders or any bank finance makes it all the more remarkable and is a testament to the skills and hard work of the Serica team. I am very proud of what they have accomplished.

Some other statistics. For the year 2014, before completing the acquisition of the Erskine field, the company made a pre-tax loss of US\$36 million. Our latest result, for 2022, reports a pre-tax profit of £488 million. You could call that a pretty substantial transformation. On the yield front, today we are seeking shareholder consent to pay a final dividend for the year which amounts to approximately £54 million, nine times our total market capitalisation of just over £6 million eight years ago and is in addition to the approximately £22 million that we paid as an interim.

I am very proud of those achievements which have largely resulted from retaining focus on value accretion and from the skills of the teams that have produced the asset performance. The completion of the Tailwind transaction brings together two teams and, creating a diverse company with scale and opportunity whilst also retaining a very strong balance sheet, cements the Company as now one of the leading British independent oil and gas producers. Under Mitch's leadership and the guidance of Dave Latin in the chair and with a very strong board and team of executives and the support of a new major shareholder it is mission accomplished from my point of view and it is time for me to step back. It has taken a lot longer than I was expecting or hoping but I hope that shareholders are pleased with what has been achieved – dare I say "so far" as there is, in my view, a lot more to go for and I think all the ingredients are there for that to occur.

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