

**SERICA ENERGY CORPORATION:**  
**Third Quarter 2004 Report to Shareholders**

The third quarter of 2004 saw the completion of the acquisition of Firstearl Limited, a private British-registered company with cash and corporate securities of just over C\$11.3 million. This has provided Serica with the funds required to drill its first two wells as operator in Indonesia targeted for the first quarter of 2005.

The wells planned to be drilled on the Asahan Offshore PSC North Sumatra are aimed at exploring the gas potential of the block already demonstrated by the NSO-1S and Kambuna-1 discoveries. These are the first wells in what is expected to be an active period of drilling for the Company.

The transaction was completed on August 10, 2004 when Firstearl founder and director, Tony Craven Walker, joined the Board as non-executive Chairman. Tony brings to Serica his considerable experience in building successful oil and gas companies in the independent sector. Neil Pike, former head of Citibank's global energy financing division, has also joined the Board as a non-executive director. We welcome these two appointments which add considerable expertise to the Board.

**Operations**

The Company's business is focused on its growing acreage portfolio in the United Kingdom ("UK") and in Indonesia and we have seen considerable progress in both these areas.

In the UK, the results of applications filed by Serica under the UK 22<sup>nd</sup> Licensing Round were announced on September 14 by UK Energy Minister Mike O'Brien, granting Serica five of the six applications made. The newly awarded blocks 54/1b, 47/20b, 48/16a, 23/16e and 23/17b, together with our existing acreage, mean we have approximately 1,000 square kilometres under Serica's ownership and operatorship in the central and southern parts of the UK sector of the North Sea, and has greatly strengthened our position as an emerging independent UK operator. On Block 48/16b, in which Serica holds a 100% interest, work continues to identify suitable partners for development of the gas discovery.

In Indonesia, further work has taken place to evaluate seismic data acquired over Serica's acreage, with particular attention on the Biliton PSC (Serica 90%) located offshore in the Java Sea. This work has identified a number of large undrilled prospects with significant hydrocarbon potential in the Block. Further work will be required to firm up these prospects but, if verified, they would encourage an accelerated drilling program in 2005 to add to the drilling program on the Asahan contract area.

Elsewhere in Indonesia, on the Lematang PSC, onshore Sumatra, where Serica holds a 10% carried interest, the Banteng exploration well was spudded on June 25, 2004 but was plugged and abandoned as a dry hole in early September.

Serica continues to conduct early studies over its exploration permits in Spain where field-based gravity measurements over the western part of the permits were conducted during the third quarter. During the quarter agreement was reached with Repsol S.A. to gain access to existing digital seismic data on our permits.

**Summary**

With the first two wells in Indonesia planned for early in the new year, further wells targeted for later in the year and early results from the Company's exploration program indicating the presence of significant undrilled hydrocarbon potential, not only in Indonesia but also in the UK North Sea, the Company is well placed to develop a very active forward drilling program.

**Christopher Rivett-Carnac**

Chief Executive Officer

## Management's Discussion and Analysis

The following discussion and analysis of the financial and operating results of Serica Energy Corporation ("Serica") should be read in conjunction with Serica's consolidated financial statements. All figures are reported in US dollars.

Since Serica is a relatively new entity (created January 29, 2004), there are no comparative figures for the third quarter in 2003. In order to provide some analysis the third quarter figures are compared below with the results of the second quarter.

### Results of Operations

Serica suffered a loss of US\$1,212,453 in the third quarter 2004. This compares with a loss of US\$1,569,883 in the second quarter 2004. A summary of the results is provided below.

	<b>3 Months to September 04</b>	<b>3 Months to June 04</b>
<b>Revenue</b>	41,079	43,582
<b>Expenses</b>		
Administration	(1,251,606)	(1,586,876)
Stock Compensation	(27,197)	(30,852)
Depreciation	(3,468)	(3,463)
Interest	11,045	13,981
Foreign Exchange gain/(loss)	17,694	(34,274)
Gain on Investment disposal	-	28,019
<b>Net loss for period</b>	<b>(1,212,453)</b>	<b>(1,569,883)</b>

Revenues for the third quarter were US\$41,079 generated from the Harimau field oil and gas sales which compares to US\$43,582 for the second quarter 2004. The reduction in sales revenue is due to falling production offset by higher oil prices.

There are no operating costs incurred for the quarter as the Harimau field costs are carried by Medco Energi Ltd.

Administrative expenses of US\$1,251,606 for the third quarter 2004 were mainly incurred by Asia Petroleum Development Ltd US\$591,693, APD Asahan Ltd US\$176,562, APD Biliton Ltd US\$133,590 PDA Iberica SL US\$65,791 and Serica (UK) Ltd US\$237,869 building their business base in Indonesia, Spain and the United Kingdom. This compares to US\$1,586,876 Administrative costs incurred for the second quarter 2004. The main reason for the decrease in costs between the second and third quarters 2004 is that owing back salaries were settled in the second quarter, and additional transaction professional fees were incurred during the second quarter.

In the third quarter additional costs of US\$27,197 were charged to income in relation to stock compensation cost of Serica's stock options. This compares to US\$30,852 in the second quarter.

The third quarter 2004 depletion, depreciation, and amortization cost was US\$3,468 which compares to US\$3,463 for the second quarter 2004.

There were no gains or losses on disposal of assets for the third quarter 2004. This compares to a second quarter 2004 gain of US\$28,019 on the disposal of the remaining investment in Pacific Tiger Energy.

## Liquidity, Capital Resources and Changes in Financial Condition

An extract of the Balance sheet is provided below.

	<b>Balance as at 30 September 04</b>	<b>Balance as at 30 June 04</b>
<b>Current Assets</b>	4,531,696	2,676,289
<b>Current Liabilities</b>	(1,083,571)	(879,441)
<b>Property Plant and Equipment</b>	10,858,928	10,456,059
<b>Long Term Receivables</b>	278,478	258,571
<b>Long Term Investments</b>	6,900,623	-
<b>Goodwill</b>	4,863,345	2,600,976
<b>Long Term Payables</b>	(155,215)	(151,488)
<b>Asset Retirement Obligation</b>	(121,560)	(121,560)
<b>Future Income Taxes</b>	(4,355,713)	(2,291,876)
<b>Share Capital</b>	(32,542,973)	(22,178,236)
<b>Contributed Surplus</b>	(203,664)	(186,467)

As at September 30, 2004, Serica had net working capital of US\$3,448,125 which comprised: current assets of US\$4,531,696 less current liabilities of US\$1,083,571. This is an increase of US\$1,651,277 in working capital from the June 2004 balance of US\$1,796,848. The three main reasons for this are an increase in the balance of cash received from the placement after paying the acquisition cost of Firstearl Ltd, an increase in the level of receivables in the Lematang PSC and the reclassification of inventory in the Lematang PSC. The net cash balance increased US\$1,083,004 from US\$1,851,758 at June 30, 2004 to US\$2,934,762 at September 30, 2004.

At the end of the third quarter 2004, Serica's cumulative property plant & equipment (PP&E) expenditure was US\$10,858,928 representing an increase of US\$402,869 from US\$10,456,059 at June 30, 2004. This comprises increased investment in the petroleum and natural gas properties; US\$400,672 in the United Kingdom, US\$47,306 in Biliton PSC, US\$32,396 in Lematang PSC and US\$136,771 in Asahan PSC, offset by a small reduction of US\$3,468 in the net book value for computer equipment and fixtures & fittings. There was also a reclassification of US\$210,808 from PP&E in the Lematang PSC to inventory.

The long term receivable has increased to US\$278,478 at the end of the third quarter 2004 from US\$258,571 at June 30, 2004. This increase represents VAT recoverable by APD Asahan Ltd and APD Biliton Ltd. The VAT is recoverable once the fields commence production.

The investment of US\$6,900,623 at September 30, 2004 reflects the Floating Rate Guaranteed Unsecured Loan Note 2005 for a nominal amount of £3,752,174 issued by ENI Investments on 15 February 2001 ("the ENI bond"). This was the main asset included in the acquisition of Firstearl Ltd on August 10, 2004.

The goodwill increase of US\$2,262,369 from US\$2,600,976 at the end of the second quarter to US\$4,863,345 at the end of the third quarter 2004 comprises US\$2,063,837 reflects the goodwill arising in the acquisition of Firstearl Limited in August 2004. These were offset by a fair value adjustment of US\$163,733 for inventory in the Lematang PSC.

Future Income taxes have increased by US\$2,063,837 from US\$2,291,876 at the end of the second quarter to US\$4,355,713 at the end of the third quarter to take account of the potential tax liability on the ENI bond.

Share Capital increased from US\$22,178,236 at June 2004 to US\$32,542,973 at September 2004. This increase comprises, US\$1,993,240 of new shares issued for the acquisition of Firstearl Ltd, US\$8,321,986 for shares issued by private placement in August 2004, US\$15,804 for options exercised, US\$10,000 for the transfer from contributed surplus and US\$23,707 for the conversion of warrants.

### **Business Risk and Uncertainties**

SERICA, like all exploration companies in the oil and gas industry, operates in an environment subject to inherent risks. Many such risks are beyond the ability of a company to control – particularly those associated with exploring for and developing economic quantities of hydrocarbons; volatile commodity prices; governmental regulations; and environmental matters.

Approved on Behalf of the Board

Christopher Rivett-Carnac  
Director

Amjad Bseisu  
Director

November 18, 2004

**Serica Energy Corporation  
Consolidated Balance Sheet**

		<b>30 September 2004 US\$ (Unaudited)</b>	31 December 2003 US\$ (Audited) (Restated)
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		2,934,762	4,251,636
Accounts receivable		1,206,914	1,040,273
Short-term Investments	<i>Note 5</i>	15,479	284,829
Inventory	<i>Note 4</i>	374,541	312,988
		<u>4,531,696</u>	<u>5,889,726</u>
<b>Property, plant and equipment</b>	<i>Note 4</i>	10,858,928	8,083,414
<b>Long term accounts receivable</b>		278,478	151,488
<b>Long-term investments</b>	<i>Note 3</i>	6,900,623	-
<b>Goodwill</b>	<i>Note 3,4</i>	4,863,345	2,177,576
		<u>27,433,070</u>	<u>16,302,204</u>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accruals		1,083,571	1,694,939
		<u>1,083,571</u>	<u>1,694,939</u>
<b>Long term accounts payable</b>		155,215	151,488
<b>Asset retirement obligation</b>		121,560	121,560
<b>Future income taxes</b>	<i>Note 3,4</i>	4,355,713	2,032,209
		<u>5,716,059</u>	<u>4,000,196</u>
<b>Shareholders' Equity</b>			
<b>Share capital</b>	<i>Note 6</i>	32,542,973	13,000,002
<b>Special warrants</b>	<i>Note 7</i>	-	5,327,363
<b>Contributed surplus</b>	<i>Note 8</i>	203,664	98,555
<b>Deficit</b>		(11,029,626)	(6,123,912)
		<u>21,717,011</u>	<u>12,302,008</u>
		<u>27,433,070</u>	<u>16,302,204</u>

See accompanying notes to the consolidated financial statements

**Serica Energy Corporation**  
**Consolidated Statement of Operations**

	<b>Three months ended 30 September 2004 US\$ (Unaudited)</b>	<b>Nine months ended 30 September 2004 US\$ (Unaudited)</b>
<b>Revenue</b>	41,079	123,112
<b>Expenses</b>		
Operating	-	1,967
Administrative	1,251,606	3,695,771
Stock compensation	27,197	115,109
Depreciation, depletion and amortization	3,468	15,196
Interest, net	(11,045)	(25,830)
Foreign exchange loss/(gain)	(17,694)	77,542
Gain on disposal of investment	-	(141,273)
Loss on disposal of asset	-	-
	<u>1,253,532</u>	<u>3,738,482</u>
<b>Net loss for the period</b>	<u>(1,212,453)</u>	<u>(3,615,370)</u>
Retained deficit, beginning of period	(9,817,173)	(6,123,912)
Excess of fair value of assets of controlling interest over net asset value	-	-
Capitalisation of reserves	-	-
Cost of merger	-	(1,290,344)
<b>Deficit, end of period</b>	<u>(11,029,626)</u>	<u>(11,029,626)</u>
<b>Net loss per common share</b>		
Basic	(0.02)	(0.08)
Dilutive	-	-

See accompanying notes to the consolidated financial statements

**Serica Energy Corporation**  
**Consolidated Statement of Cash Flows**

	<b>Three months ended 30 September 2004 US\$ (Unaudited)</b>	<b>Nine months ended 30 September 2004 US\$ (Unaudited)</b>
<b>Operating activities</b>		
Net loss for the period	(1,212,453)	(3,615,370)
Depreciation, depletion and amortisation	3,468	15,196
Gain on disposal	-	(141,273)
Stock options compensation charge	27,197	115,109
	<u>(1,181,788)</u>	<u>(3,626,338)</u>
Changes in working capital		
Accounts receivable	(308,447)	1,633,815
Accounts payable	181,709	(1,113,452)
Inventory	(32,397)	(61,553)
	<u>(1,340,923)</u>	<u>(3,167,528)</u>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(584,748)	(2,088,906)
Purchase of subsidiary undertaking	(7,008,818)	(7,008,818)
Proceeds on disposal of investment	-	410,623
Cost of merger	-	(1,290,344)
Cash acquired on merger	-	1,654,212
Cash acquired on acquisition	1,655,996	1,712,777
	<u>(5,937,570)</u>	<u>(6,610,456)</u>
<b>Financing activities</b>		
Proceeds on exercise of options/issue of shares	8,361,497	8,461,110
	<u>8,361,497</u>	<u>8,461,110</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	<u>1,083,004</u>	<u>(1,316,874)</u>
<b>Cash and cash equivalents, beginning of period</b>	1,851,758	4,251,636
<b>Cash and cash equivalents, end of period</b>	<u>2,934,762</u>	<u>2,934,762</u>

See accompanying notes to the consolidated financial statements

**Serica Energy Corporation**  
**Notes to the Consolidated Financial Statements**

30 September 2004  
(Unaudited)

**1. Basis of presentation**

The interim consolidated financial statements include the accounts of the Serica Energy Corporation (“the Company”) and its wholly owned subsidiaries Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited, Petroleum Development Associates Iberica S.L., Serica Energy (UK) Limited, Serica Energy Pte Limited, Asahan Oil Investments BV, Glagah Kambuna Exploration BV and Firstearl Limited.

The Company was formed on 29 January 2004 by a merger of Petroleum Development Associates (Oil & Gas) Limited (“PDA”) and Kyrgoil Holding Corporation (“KGO”) and was continued under the name of Serica Energy Corporation. The principal activity of the Company is to identify, acquire and subsequently exploit oil and gas reserves primarily in Asia and Europe and the provision of ancillary services to third parties in such respect.

The merger of PDA and KGO has been accounted for under EIC 10 as a reverse takeover which does not constitute a business transaction.

As such, the financial statements of the Company represent a continuation of PDA. No comparative period has been presented for Consolidated Statement of Operations and Consolidated Statement of Cash Flows as no comparative statements exist. A Notice of Change of Corporate Structure was filed in this respect on 17 May 2004.

On 1 January 2004 PDA acquired all of the issued shares of Serica Energy Pte Limited (formerly Asia Petro Services Pte Limited) for a cash consideration equal to that company’s net assets. This company was owned and operated by the management team of PDA but had not been included within the business reorganization effected on 27 August 2003. As there had been common control throughout, the 31 December 2003 balance sheet comparatives have been restated to incorporate the assets and liabilities of this company at 31 December 2003.

**2. Significant accounting policies**

The interim financial statements of the Company have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended 31 December 2003, except as described in note 1. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Petroleum Development Associates (Oil&Gas) Limited annual report for the year ended 31 December 2003.

***Investments***

Investments are portfolio investments recorded at the lower of cost or market value. They have been classified either as long-term or short-term investments in concurrence with the nature of the investment.

***Inventory***

Inventory relates to machinery and tools used in the Lematang Production Sharing Contract. Inventory is stated at the lower of cost or net realisable value.

### ***Property, plant and equipment***

The Company follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs associated with the exploration for, and the development of, petroleum and natural gas reserves, whether productive or unproductive are capitalised in cost centers on a country by country basis. Costs capitalised include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties and drilling and overhead expenses related to exploration and development activities. The Company has currently three costs centers: Indonesia, Spain and the UK.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion, future or deferred income taxes and the site restoration provision from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves, based on current prices and costs, and after deducting estimated future site restoration costs, general and administrative expenses, financing costs and income taxes. Any costs carried on the balance sheet in excess of the ceiling test limit are charged to income as additional depletion.

The carrying value of unproved properties (acquisition costs and seismic data) are reviewed periodically and written down to net realizable value if impairment is determined. Any impairment is included in costs subject to depletion.

### ***Depreciation, depletion and amortization***

The costs related to each cost centre are depleted and depreciated on a unit-of-production basis. Costs of unproved properties are excluded from depletion. Land and lease costs relating to producing properties and costs of gas plants are depleted and depreciated over remaining proved reserves.

Computer equipment and fixtures, fittings and equipment are recorded at cost. The straight-line method of amortization is used to amortize the cost of these assets over their estimated useful lives. Computer equipment is amortized over three years and fixtures, fittings and equipment over four years.

### ***Goodwill***

Goodwill, which represents the excess of purchase price over the fair market value of net tangible assets acquired, is not amortized but is subject to an annual impairment test. Goodwill impairment is assessed based on a comparison of the fair value of an individual reporting unit to the underlying carrying value of the reporting unit's net assets including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any. The fair value of goodwill is determined in the same manner as in a business combination.

### ***Joint venture activities***

The Company conducts petroleum and natural gas exploration and production activities jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

### ***Asset retirement obligations***

An asset retirement obligation is recognized at its fair value when identified and a reasonable estimate of its fair value is determinable. Prices for similar liabilities are used to measure fair value.

When a liability is recognized, a corresponding asset retirement cost is capitalized to the carrying amount of the related asset. The asset retirement cost is amortized over the estimated useful life of the related asset.

The Company recognizes changes to the liability arising from revisions to the timing or amount of expected future cash flows as an increase or decrease to the carrying amounts of the asset retirement obligation and the related asset retirement capitalized cost.

### ***Income taxes***

The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided to the extent that it is more likely than not that future income taxes will not be realized.

### ***Revenue recognition***

Petroleum and natural gas revenues are recognized when the title and risks pass to the purchaser.

### ***Per share amounts***

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated based on the treasury stock method which assumes that any proceeds obtained on the exercise of any options and warrants would be used to purchase common shares at the average price during the period.

### ***Stock based compensation***

The Company uses the fair value method of accounting for stock-based compensation, or stock options, granted to employees and directors. Stock-based compensation is recorded in the consolidated statements of operations as a separate expense for all options granted with a corresponding increase in equity recorded as contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for forfeitures as they occur. In the event that vested options expire without being exercised, previously recognized compensation expense associated with stock options is not reversed.

Compensation expense for options granted during 2004 is based on the estimated fair values at the time of the grant and the expense is recognized over the vesting period of the option.

### *Measurement uncertainty*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization of capital assets other than petroleum and natural gas properties is based on the estimated useful lives of the capital assets. The amounts recorded for depletion and depreciation of property and equipment and the provision for site restoration and abandonment are based on estimates of proved reserves, proved developed reserves, production rates, future costs and other relevant assumptions. These estimates are reviewed regularly and changes in such estimates in future years could be significant. As adjustments become necessary, they are reported in earnings in the periods in which they become known.

### **3. Business combination**

On 10 August 2004 Serica Energy Corporation acquired Firstearl Limited, a private British-registered company, for a consideration of US\$9,002,058. The consideration was satisfied by the issue of 3,043,750 Common Shares and 1,521,875 Purchase Warrants having an exercise price of C\$1.20 per share expiring 2 years from the closing date, with the balance of the consideration to be paid in cash.

The acquisition has been accounted for by the purchase method in these consolidated financial statements from the date of acquisition.

Cost of acquisition was as follows:

	<b>US\$</b>
Cash	6,656,836
Shares and purchase warrants	1,993,240
Transaction costs	351,982
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	9,002,058
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The net effect of the acquisition on the Company's consolidated balance sheet was as follows:

	<b>Fair value</b>
Fixed asset investment	6,900,623
Cash and cash equivalents	1,655,996
Accounts receivable	109,322
Accounts payable	(26,148)
Future income taxes	(2,063,837)
Goodwill	2,426,102
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	9,002,058
	<hr/> <hr/>

The above numbers are preliminary. Adjustments may occur as a result of obtaining more information regarding asset valuations, liabilities assumed and revisions of preliminary estimates of fair values made at the date of purchase.

The fixed asset investment is a Floating Rate Guaranteed Unsecured Loan Note 2005 for a nominal amount of £3,752,174 issued by ENI Investments plc on 15 February 2001. The loan note is repayable on 31 December 2005 or on any interest payment date.

The future income tax liability arose as a result of the fair value increment to the fixed asset investment acquired.

### 3. Business combination (continued)

The Company entered into an agreement on 22 April 2004 to purchase Asahan Oil Investments BV and Glagah Kambuna Exploration BV, both of which are registered in the Netherlands for a consideration of US\$701,804. The consideration was satisfied by the issue of 1,004,950 shares of Serica Energy Corporation.

The value of the common shares issued was determined based on the market price of the Company's common shares on 22 April 2004. The acquisition has been accounted for by the purchase method in these consolidated financial statements from the date of acquisition.

The net effect of the acquisition on the Company's consolidated balance sheet was as follows:

The assets at acquisition were:

Asahan Oil Investments BV	<b>Fair value</b>
Property, plant and equipment	<b>663,397</b>
Cash and cash equivalents	<b>28,393</b>
Accounts payable	<b>(28,393)</b>
	<hr/>
	<b>663,397</b>
	<hr/> <hr/>
Glagah Kambuna Exploration BV	<b>Fair value</b>
Property, plant and equipment	<b>38,407</b>
Cash and cash equivalents	<b>28,388</b>
Accounts payable	<b>(28,388)</b>
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	<b>38,407</b>
	<hr/> <hr/>

The above allocations are preliminary. Adjustments may occur as a result of obtaining more information regarding asset valuations, liabilities assumed and revisions of preliminary estimates of fair values made at the date of purchase.

### 4. Prior period adjustments

The 31 December 2003 balance sheet comparative figures have been restated to reflect additional future income tax liabilities, totalling \$1,254,750, which arose as a result of the fair value increment to petroleum and natural gas properties on the acquisition of Petroleum Development Associates LLC, Petroleum Development Associates (Asia) LLC, Petroleum Development Associates (Spain) LLC and Asia Petroleum Developments Limited on 27 August 2003. In addition, the corresponding goodwill which arose in respect of the future income tax liability of \$777,459 had been included in Property, plant and equipment and, accordingly, an adjustment has been made to the 31 December 2003 balance sheet comparative figures to correctly reflect this in Goodwill.

#### 4. Prior period adjustments (continued)

The 31 December 2003 balance sheet comparative figures have also been restated to reflect the reclassification of inventory totaling \$149,255 which had previously been included in property, plant and equipment. In addition, the fair value of inventory acquired on the purchase of Amerada Hess (Indonesis-Lematang) Limited has been revised from \$Nil to \$163,733. The effect of these adjustments is shown below.

<b>Consolidated balance sheet at 31 December 2003</b>			
	<b>As reported</b>	<b>Change</b>	<b>As restated</b>
<b>Assets</b>			
Inventory	-	312,988	312,988
Property, plant and equipment	9,010,128	(926,714)	8,083,414
Goodwill	309,100	1,868,476	2,177,576
<b>Liabilities</b>			
Future income taxes	(777,459)	(1,254,750)	(2,032,209)

Further reclassifications may be required after further reviews are made during the fourth quarter.

#### 5. Investments

Included in investments is an interest in convertible debentures of a company listed on the Canadian Venture Exchange.

	<b>Percent Ownership 2004</b>	<b>2004</b>	<b>2003</b>
Investment represents:			
Common shares	-	-	268,714
Convertible debentures	1.7%	<u>15,479</u>	<u>16,115</u>
		<u><b>15,479</b></u>	<u><b>284,829</b></u>

The investment represents a company that carries on oil and gas company exploration, development and production activities in Thailand. The company is traded at the Canadian Venture Exchange. The common shares held were disposed of in 2004. The convertible debentures were issued in the amount of \$Can 22,029 and bear interest at the rate of 10% per annum. The shares are convertible into common shares at the rate of 30 common shares for each whole multiple of \$10.50 of convertible indebtedness until March 31, 2005. After that date, the debentures are convertible into 27 common shares for each whole multiple of \$10.50 of indebtedness. The maturity date of the debentures is March 30, 2006.

**6. Share capital**

	<b>Shares</b>	<b>Capital in value</b>
1 January 2004	13,000,002	13,000,002
Additional shares issued to existing shareholders on merger with KGO	10,920,000	-
Shares issued on merger with KGO at book value	8,289,406	3,049,454
Conversion of special warrants	10,989,163	5,327,363
Options exercised for cash	199,000	99,613
31 March 2004	<u>43,397,571</u>	<u>21,476,432</u>
Shares issued to acquire Asahan Oil Investments BV and Glagah Kambuna Exploration BV	1,004,950	701,804
30 June 2004	<u>44,402,521</u>	<u>22,178,236</u>
Shares issued to acquire Firstearl Limited	3,043,750	1,993,240
Shares issued in private placement in August 2004	13,750,000	8,321,986
Options exercised for cash	50,000	15,804
Transferred from contributed surplus on exercise of options	-	10,000
Conversion of warrants (see note 7)	30,000	23,707
30 September 2004	<u><u>61,276,271</u></u>	<u><u>32,542,973</u></u>

**7. Special Warrants**

Special warrants issued in 2003 were converted to common shares in the quarter to 31 March 2004.

30,000 warrants resulting from the conversion of the special warrants were exercised in the quarter to 30 September 2004. The remaining 10,959,163 options are exercisable at \$Can 1.00 until 29 January 2005.

In addition on 29 January 2004 the following compensation options were granted to Canaccord as a placement agent:

1,098,914 exercisable at \$Can 0.70 until 29 January 2005  
549,457 exercisable at \$Can 1.00 until 29 January 2005

The following have been granted during the quarter to 30 September 2004:

1,521,875 purchase warrants as part of the consideration for the purchase of Firstearl Limited (note 3).

6,875,000 purchase warrants attached to special warrants exercisable at \$Can 1.20 until 5 August 2006.

1,031,250 compensation options to Canaccord, as a placement agent. 687,500 are exercisable at \$Can 0.80 until 5 August 2006 and 343,750 are exercisable at \$Can 1.20 until 5 August 2006.

#### 8. Contributed surplus

1 January 2004	98,555
Amortization of fair value of stock options	115,109
Transferred to share capital	(10,000)
	203,664
	203,664

#### 9. Stock Options

A Stock Option Plan has been established for the benefit of directors, officers and key employees. Under the plan, the terms, conditions and limitations are determined at the discretion of the Board of Directors. The options are exercisable until 19 February 2009, at Can \$1.11-2.00 per share and vest over periods ranging from immediately to three years. 3,032,500 common shares have been authorized for grant under the terms of the plan in 2004.

The Company calculated the value of stock-based compensation using a Black-Scholes option pricing model to estimate the fair value of stock options at the date of grant. The estimated fair value of options is amortized to expense over the options' vesting period. For stock options granted during 2004, \$27,197 has been charged to income in three months ended 30 September 2004 (\$115,109 for the nine months ended 30 September 2004 and \$27,197 credited to contributed surplus for the three months ended 30 June 2004 (\$115,109 for the nine months ended 30 September 2004).

The assumptions made for the options granted during 2004 include a volatility factor of expected market price of 70%, a weighted average risk-free interest rate of 6.0%, no dividend yield and a weighted average expected life of options of three years. The weighted average grant date fair value was \$0.24 per share.

The following table summarizes changes in the Company's stock options during the period:

	Number of shares	Exercise Price per Share	Weighted Average Exercise Price
Outstanding, beginning of period	2,432,500	\$0.40 to \$2.00	\$1.93
Granted	700,000	\$1.11	\$1.11
Cancelled	(50,000)	\$0.40	\$0.40
Exercised	(50,000)	\$0.40	\$0.40
Outstanding, end of period	3,032,500	\$0.50 to \$2.00	\$1.79

The following table summarizes information about stock options outstanding at September 30, 2004:

Exercise Price	Number of Shares Outstanding	Weighted Average Remaining Life (Years)	Number of Shares Exercisable
\$0.50	5,000	5	-
\$1.11	700,000	3	-
\$2.00	2,327,500	5	475,000
<b>Total</b>	<b>3,032,500</b>		<b>475,000</b>

**10. Comparative figures**

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

***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 Corporation's control, including: the impact of general economic conditions where Serica Energy Corporation operate, 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 Corporation'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 Corporation will derive therefrom.*