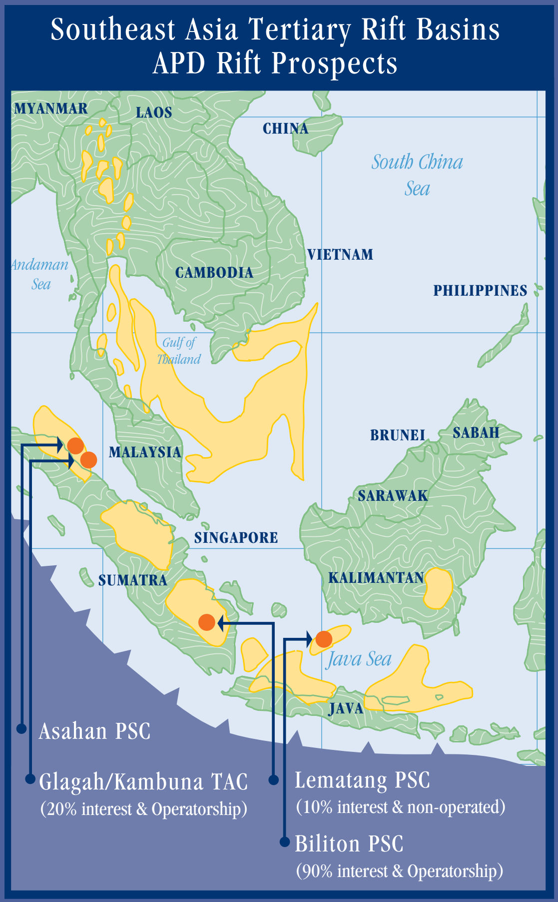
Serica Energy Corporation

Annual Report 2003

Serica Energy Corporation is a junior international oil and gas exploration company with projects in Indonesia, the UK Southern North Sea and Spain. The Company was formed in 2004 as a result of a merger of publicly traded Kyrgoil Holding Corporation and the private Petroleum Development Associates (PDA).

2003 Highlights

- Acquired a 20% working interest and operatorship in the Asahan Offshore PSC and Glagah/Kambuna TAC, offshore North Sumatra, Indonesia
- Awarded P.1142 Promote Licence in the U.K. Southern North Sea in the UKCS 21st Licensing Round
- Signed a Sale and Purchase Agreement with ConocoPhillips UK Limited and its partners in the P.898/P.936 Licences to acquire the operatorship and 100% interest in both North Sea licences for US$625,000.
- Granted 100% operated interest for a six-year term to explore four large permit areas in northeastern Spain
- Awarded a 90% operated interest in the Biliton PSC, Java Sea, Indonesia. The PSC has an initial exploration period of six years.



This annual report incorporates Management's Discussion and Analysis, Auditor's Report, Financial Statements and Notes to Financial Statements for Kyrgoil Holding Corporation and Petroleum Development Associates, the merged companies now comprising Serica Energy.

Contents

Forward-Looking Statements: Except for statements of historical fact, all statements in this Annual Report – including, without limitation, statements regarding production and reserve estimates and future plans and objectives of Serica Energy Corporation – are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate; actual results and future events could differ materially from those anticipated in such statements.

Dear Shareholder - With this, my first Letter to Shareholders, I would like to welcome the three separate groups who have invested in Serica – those from Petroleum Development Associates (PDA) and Kyrgoil and the new group who came on board with our late 2003 financing prior to our February 2004 listing on the TSX Venture Exchange.

This Annual Report is somewhat unusual in that you will find the financial statements for both Kyrgoil and PDA, a regulatory requirement because of the timing of the merger and subsequent exchange listing. This is a housekeeping matter as much as anything else, but I want to focus this Letter to Shareholders on the assets of the new company, Serica, and the potential for growth in shareholder values that we believe is inherent in the assets of this new oil and gas minnow.

As yet, Serica has no significant production. However, it has two important assets that we hope will prove to be the foundation of an emerging junior oil and gas player. The first key asset is, in a word, *people*. Serica has the benefit of a remarkably experienced team of oil and gas exploration professionals, the core of which was previously with Atlantic Richfield (ARCO), who left to form PDA after ARCO was taken over by BP. We benefit from this ARCO heritage today and pay tribute to PDA's founders, David Nicklin, former Chief Geologist of ARCO and Chris Atkinson, an internationally renowned geologist and former Vice President of Exploration for ARCO's Europe/North Africa region. Both have had enormous experience in the international oil and gas exploration business and both have major oil and gas discoveries to their credit. Chris now heads up the exploration team for Serica. Our ARCO heritage is strengthened by Mike Renolds. Mike is a seasoned "oil finder" and passionate explorationist, formerly with AMOCO and Total with many years experience in South East Asia. Together with Chris, Mike is the originator of Serica's Rift Basin oriented exploration program in Indonesia today.

The second key asset is the portfolio of exploration projects that has been methodically crafted over the last three years. Serica now has in hand a series of promising projects in Indonesia, the UK sector of the North Sea and in onshore Spain. PDA started with its primary focus in the Southern Gas Basin of the UK North Sea. This is now eclipsed by the scale and scope of our acreage in Indonesia. Our Production Sharing Contracts in the Java Sea and Straits of Malacca, offshore North Sumatra cover over 10,000 square kilometres. This acreage was acquired as part of Serica's Rift Basin exploration strategy, both areas are under-explored, with large remaining prospectivity. In the case of North Sumatra our focus is on gas exploration. We believe there are several large low risk gas and condensate prospects in addition to the Tanjung Perling discovery. We plan to drill appraisal/development wells on the discovery to establish commerciality with a view to satisfying the emerging local gas market. For this reason the focus of our immediate efforts will be in Indonesia, where we look forward with considerable anticipation to the drilling of several key wells that we expect to be drilled in the coming year.

The third essential ingredient to success is, of course, the funding that makes it all possible. I would like to thank Chris Harrop and his colleagues at Canaccord Capital for their tireless efforts and contribution that were instrumental in creating Serica and its Board, and laid the foundation for our funding and successful launch on the Venture Exchange.

We now look forward to the drilling of our first exploration wells, starting in Indonesia in mid-2004 with the Banteng exploration well on the Lematang PSC where we have a 10% carried working interest. While future drilling on this and other projects will probably entail funding by Serica, on Banteng, our first 'shot', no contribution will be required from us, a suitable start for Serica as an entrepreneurial "elephant hunter".

In fact the original concept on which we founded PDA was to create a fairly simple game plan: assemble highly prospective acreage, work the plays with our experienced exploration team and seek oil industry partners to participate in the drilling of our plays by funding them. This was the formula for PDA's successful "cottage industry" over a number of years, and generated the carried interest in Lematang from which we will shortly be benefiting. This remains Serica's ongoing primary modus operandi, *a small company with leveraged exposure to big upside potential.*

The challenge for us this year is to become a fully-fledged international explorer, perhaps drilling our own wells on our internally generated plays, now that we have access to international capital markets as a result of our public listing.

As we make this transition there will be further board changes as we tune Serica to the task ahead by adding oil and gas expertise. In this regard I would like to thank very much Chris Harrop, Rob Franklin and Bill Wilson who will be standing down shortly at our AGM for their valuable contribution and enthusiasm in helping Serica get started.

On behalf of the board

Chris Rivett-Carnac
CEO

Projects review

Indonesia

Property Descriptions and Location

The Lematang PSC covers an area of just over 400 km^2 and is located onshore in South Sumatra. The PSC is highly prospective and lies within the prolific South Palembang Basin where oil and gas were first discovered in the late 19th century.

The Asahan Offshore PSC comprises an area of around 3,000 km^2 of the Malacca Straits and is located in the offshore North Sumatra Basin. The North Sumatra Basin is one of the most prolific hydrocarbon bearing basins in Indonesia with discovered reserves to date in excess of 1 billion barrels of oil/condensate and 23 tcf of gas. Several exploration wells have been drilled in the PSC and there is one undeveloped gas/condensate discovery.

The Biliton PSC covers an area in excess of 6,500 km^2 of the Java Sea. Limited exploration studies have been conducted in the region with only one exploration well, Parang-1 drilled in 1974 lying within the PSC. The area of the PSC was last licensed in the late 1960s and since that time although both Amoco and BP held study conventions over the acreage it has never been re-licensed until now.

Interest in the Properties

The Company currently has a 10% working interest in the Lematang PSC which is "carried" by the operator, Exspan-Medco, for the next US$28.75 million of gross work programme.

The Company's interest in the Asahan Offshore PSC has recently increased to 59% following a further transaction with two other partners in the PSC, Vitol and Jagen/Greevest.

In the Biliton PSC the Company possesses a 90% operating interest.

History

The Lematang PSC was first awarded by Pertamina to Enim Oil on 6 April 1987. In 1991, Enim Oil farmed out half of its interest in the PSC to Bonham. In 1993, Bonham purchased the remaining stake owned by Enim Oil. The following year, Bonham sold its 100% interest to Energy Equity. In 1997, Energy Equity farmed out 80% of its interest to Amerada Hess (50%), Lundin Petroleum (15%) and Novus (15%). Amerada Hess became the operator of the PSC in 1999 and increased its equity position to 70% by purchasing the remainder of the Energy Equity position. PDA (Asia) Limited purchased Amerada Hess Indonesia for US$5 million in October 2002. PDA subsequently sold its 60% stake and conceded operatorship of the PSC to Exspan-Medco for US$6.25 million plus a "carry" of its retained 10% equity interest through the next US$25 million of gross work programme. The transfer of operatorship from PDA to Exspan-Medco was approved in February 2003. In January 2003, APD acquired an additional 5% stake in the Lematang PSC from Novus. This equity has since been sold to Exspan-Medco for an additional US$3.75 million of "carry" through the gross work programme on the PSC. PDA's 10% carried equity position is now owned by the Company.

The Asahan PSC was first awarded by Pertamina to PT Risjad Salim Resources on December 19 1996. Subsequently, PT Risjad Salim farmed out 60% of its equity to Ensearch Exploration. In November 1999, Matrix Oil farmed into the PSC by acquiring 75% interest with PT Risjad Salim reducing its stake to 10% and Ensearch reducing its stake to 15%. In 2002, Matrix Oil was placed into administration and in March 2003, the secured creditors, Vitol, Jagen and Greevest, obtained title to the PSC from the administrator. In a strategic alliance with these creditors, PDA secured a 20% equity position in the PSC in return for providing its operating expertise. The transaction was completed in June 2003 and final approval granted from the Indonesian authorities in October 2003. In April 2003 the Company was successful in increasing its equity position in the assets to 65%.

The Biliton PSC was signed on December 30, 2003 between the Government of Indonesia and APD (Biliton) Limited and PT Mitra Energi. The Company, through its ownership of APD (Biliton), possesses a 90% operated interest in the PSC.

Production

The Lematang PSC contains within it one producing field, the Harimau field. It is located in the eastern portion of the PSC. The Harimau gas/condensate field was discovered in December 1987 by Enim Oil. The total production to date is 48.2 bcf of gas and 2.08 mmb of oil and condensate. The average daily gross production is still approximately 90 bbls of condensate liquids and 2.5mmcf of gas. Recent cost control strategies put in place by the operator combined with the high price of oil mean that the field continues to be economic. The gas production from the field is supplied under long term contracts to the government-owned P.T. Pupuk Sriwidjaja ("Pusri") fertilizer plant.

There is no current production on the Asahan Offshore and Biliton PSC's.

Exploration and Development

Lematang PSC

Two undeveloped discoveries, the Singa and Siamang Fields exist in the Lematang PSC. Of these, the Singa Field is the most important. The Singa Field was discovered in June 1997 with the drilling of the Singa-1 well by Energy Equity. The well tested gas from the Batu Raja formation at a rate of 30.7 million scf/d. Following the assumption of operatorship by Amerada Hess, an additional 310 kilometres of 2D seismic and 188.5 km2 of 3D seismic data were acquired in 1998. In 1999, the Singa-2 appraisal well was drilled and confirmed the existence of the field to the north of the Singa-1 location. The Singa-2 well was production tested in early 2004 and confirmed the economic viability of the project. Cost estimates for putting the Singa Field on production range from US$30 million to US$40 million depending upon point of gas sale, use of gas, number of development wells to be drilled and whether or not a pipeline will need to be constructed. It is anticipated that major Singa expenses will be incurred in 2005 with first gas from the field targeted by Exspan-Medco for 2006.

There are no immediate plans to develop the small Siamang discovery.

The PSC also contains three exploration prospects:

- The giant Banteng prospect is estimated to contain deep gas/condensate with unrisked reserves in the range of 2.5 tcf of gas and in excess of 100 mmb of condensate liquids.
- The Rusa – North Siamang prospect is estimated to contain unrisked reserves of 1-2 mbbls of oil and 50 bcf of gas.
- The Rusa – Harimau prospect is estimated to contain unrisked reserves of 1-2 mbbls of oil and 50 bcf of gas

The Banteng prospect is currently being prepared for drilling by Exspan-Medco and is anticipated to be drilled in July 2004. Expected gross cost for the well is estimated at US$11.4 million and drilling will take approximately 90 days to reach total depth.

The Company will be fully carried through all of the 2004 and most of the 2005 expenditure on the PSC. Based upon the current estimates by the operator, Exspan-Medco, the Company will require an additional US$726,000 in 2005 to complete its 10% share of the work programme, which will include the drilling of the Banteng prospect and the development of the Singa Field.

Asahan Offshore PSC

The PSC contains one existing, fully delineated discovery: the NSO-1S or Tanjung Perling Field. This field was discovered in 1974 by Pertamina-North Sumatra Oil Inc. It is located some 20 kilometres offshore and represents a 2700 acre areal closure with gas/condensate production at a depth of around 4500 feet sub-sea. The discovery well was tested at flow rates of 3.9 MMscf/d of gas and 214 bcpd although it was later apparent that this flow had been severely hampered by a downhole obstruction. Calculated flow rates from the reservoir have been recalculated by the Company to be more in line with the original operators view that the well would actually be capable of flowing in excess of 50 MMscf/d and 2,500 bcpd had it not been impaired. Efforts are currently underway to re-map and re-assess this discovery and a follow-up well is planned on the field in late 2004.

The PSC also contains at least four, low risk exploration prospects which are currently being re-mapped by the Company. In several cases these prospects are supported by the known presence of DHI's ("Direct Hydrocarbon Indicators") on existing 2D seismic. Combined reserves for these prospects are likely to be in excess of 1 tcf of gas and 100 mmb of condensate. The Company plans to have all the prospects fully mapped and drill ready by the end of 2004.

In preparation of the above activity, the 2004 work programme on the PSC reflects the need to drill an exploration well on the Tanjung Perling discovery and to complete a large amount of technical interpretation with supporting technical studies on the prospects. The current drilling cost estimate for the exploration well is approximately US$3 million.

Biliton PSC

The Biliton PSC contains no existing discoveries nor any mapped exploration prospects at this time. In February 2004 2000 line kilometers of 2D seismic data were acquired in the block by the Company and this is currently being processed ready for interpretation later in the year. Depending upon the mapping of a viable exploration target it is anticipated that the earliest drilling activity in the Biliton PSC will be in 2005.

United Kingdom – Southern North Sea Gas Basin

Property Descriptions and Locations

Serica Energy has the licence to operate over an area in excess of 144 km2 in the UK Southern North Sea Gas Basin through its interests in the retained areas of the UKCS Production Licences P.898 and P.936. These licences are located approximately 50 km offshore from the Lincolnshire coast of the UK and are adjacent to the producing Pickerill and Waveney Fields. Licence.

In the UKCS 21st Offshore Licensing Round, the Company (through its pre-merger company pda) was awarded Licence P.1142 over an area of 458 km2 in the UK Southern North Sea. This licence lies close to the Humber Estuary and adjacent to the producing gas fields, Amethyst and Saltfleetby.

Interests in the Properties

In August 2003, the Company acquired UKCS Production Licences P.898 and P.936 from ConocoPhillips (UK) Limited and its partners, Tullow Oil UK and Gaz de France Britain, for consideration of US$625,000. Licence P.898 comprises Blocks 48/16b and 47/20a. Licence P.936 covers Blocks 47/19a and 47/25a. Under the terms of the Sale and Purchase Agreement, the further payment of consideration owed by ConocoPhillips has been cancelled. Following discussions with the UK Department of Trade and Industry (DTI), Serica has undertaken to assume the role of operator of the licences with an option to commit to the drilling of an exploration well on the licences by September 2004 to retain the P.936 Licence. There are no remaining commitments or work/expenditure obligations on the P.898 Licence.

In October 2003, the Company was awarded the operatorship and a 100% undivided interest in Promote Licence P.1142, Blocks 47/17 and 47/18 in the UK Southern North Sea.

History

P.936 & P.898 Licenses

ARCO was granted the P.936 Licence in 1995 as part of the 16th Offshore Licensing Round. Licence P.898 was awarded to a Shell/Esso Joint Venture in the 15th Offshore Licensing Round in 1995 and was subsequently sold to ARCO in 1989. Both licences became the property of BP following its acquisition of ARCO in 2000.

In October 2000, Petroleum Development Associates (UK) Limited purchased Licences P.898 and P.936 from BP for US$1.1 million. In November 2000, Petroleum Development Associates (UK) Limited secured a farmout arrangement on the licences with Enron. This farmout resulted in PDA retaining a 20% equity interest and being carried through both the seismic and drilling phases of the exploration of the licences. In December 2000, the UK government refused to grant Enron an operator status in the UK and the deal subsequently collapsed. As a result, Enron made a settlement payment to Petroleum Development Associates (UK) Limited for US$150,000 and Petroleum Development Associates (UK) Limited retained its original 100% ownership in the licences.

Following proprietary re-processing of 3D seismic data, both licences were successfully farmed out to Conoco (UK) Ltd in June 2001 for a cash sum of US$4.5

million and an ongoing, success dependent financial interest. Under the agreement with Conoco (UK), PDA retained a significant financial interest in these blocks represented by a bonus payment that would be paid when a prospect has been drilled and sufficiently appraised such that an application to develop an individual field is made to the DTI. The level of payment was to be calculated based on the following formula: (i) US$ 0.05 per mcf up to 300 bcf; and (ii) US$0.03 per mcf for over 300 bcf. In November 2002, ConocoPhillips farmed out a 20% interest in the licences to Tullow Oil UK and a 30% interest to Gaz de France Britain. In July 2003, PDA re-acquired the operatorship and a 100% undivided interest in the retained areas of both licences from ConocoPhillips and partners for a consideration of US$625,000 and the cancellation of the liability for the additional financial payment.

The exploration history of the P.936 & P.898 Licence areas is summarized below.

P.936

Block 47/19a

The block was first licensed to Placid Oil in 1964. Burmah Oil took over the licence in 1968 but relinquished the block in 1970. The block remained open until Agip, British Sun and OMV took the licence in the 10th Licensing Round in 1987. The block was relinquished by Agip in 1992 without exploration drilling. ARCO acquired the block in 1995 and acquired a full fold proprietary 3D seismic survey of 140 km2 over the block the same year. The acreage passed to BP following its acquisition of ARCO in 2000.

Block 47/25a

The block was first licensed to Placid Oil (100%) in the 1st Offshore Licensing Round in 1964. Placid Oil relinquished Block 47/25b in 1970 after drilling two unsuccessful wells. In 1985, a consortium led by Lasmo (as operator) acquired a 50% interest in block 47/25a. The block was relinquished in 1990 with no further drilling. In 1995, the block was re-licensed in the 16th Licensing Round as a complete block (47/25) to ARCO (100%).

Placid Oil drilled a well in Block 47/25-1 in 1968 to a total depth within the Carboniferous. The well was plugged and abandoned as a dry hole. The 47/25-2 well was drilled back to back with the 47/25-1 well and again reached the Carboniferous before being plugged and abandoned as a dry hole. Both wells were interpreted by ARCO to have been drilled off structure having been located on older vintage 2D data.

P.898

Block 47/20a

The block was first licensed to a group led by Canadian Industrial Gas in the 1st Licensing Round in 1964. The group drilled one unsuccessful well (47/20-1) in 1967 located on old vintage 2D data. This well penetrated the Carboniferous. The block was relinquished in 1970 and remained open until the 10th Licensing Round in 1987 when Agip assumed operatorship. The Agip-led group, including British Sun and OMV, drilled the second well, 47/20-2, in 1990 and this well also proved to be dry. The well was located using the older 2D seismic data and is also believed to have been drilled off structure. The well penetrated a significant thickness of Carboniferous age rocks. The block was relinquished in 1992 and re-licensed in 1994 during the 15th Licensing Round to a Shell/Esso partnership. Shell acquired a proprietary 3D survey of 290 km2 full fold in 1996. ARCO completed an asset swap with Shell and Esso in January 1998 and completed a more comprehensive interpretation of the 3D data utilising seismic attributes and surface slices.

Block 48/16b

The block was first licensed to a group led by Burmah Oil in 1964 and was relinquished in 1970. The block remained open until 1983 when Phillips Petroleum and partners secured the licence of the block in the 8th Licensing Round. This group drilled 48/16-1 in 1975 to the Carboniferous. The well was dry, but ARCO interpreted this well to have been drilled off structure down dip from the Mobil Guinevere Field. In 1989, the group relinquished the 48/16b Block, but Philips Petroleum re-acquired the block.

In 1991, Block 48/16b was partially relinquished to form Block 48/16c. The 48/16c Block was acquired by ARCO in 1991 during the 12th Licensing Round. ARCO later relinquished part of Block 48/16c to form Block 48/16d in 1997 as part of a mandatory relinquishment. The group, led by Phillips Petroleum, relinquished Block 48/16b in 1993 and later released Block 48/16a when ARCO completed an asset swap with Shell and Esso and assumed operatorship in 1995. The Shell/Esso group was awarded Block 48/16b in the 15th Licensing Round in 1994 but utilised only sparse and moderate quality 2D data in their analysis, in January 1998. Later in 1998, the DTI combined the 48/16a and 48/16d part Blocks into a new Block 48/16a, which was made available in the 18th Licensing Round.

The first exploration well on the part Block was 48/16b-2 drilled by Conoco in November and December 2002 resulted in a gas discovery.

P.1142

21st Round Blocks 47/17 and 47/18

The 47/17 and 47/18 Blocks were originally licensed by Place Oil in the 1st UK Offshore Licensing Round held in 1964. The original licence (P.45) was held 100 % by Place Oil. Following a transaction with Burmah, the only current well on the blocks was drilled in 1967. The blocks were relinquished and remained unlicensed until March 1993 when BP and Statoil acquired both blocks in the 14th Round under licences P.840 and P.841. Later in 1998, ARCO purchased the 40% interest from Statoil but the blocks were relinquished without further exploration drilling.

The blocks again remained unlicensed until they were acquired by Petroleum Development Associates (UK) Limited in October 2003, following their award in the 21st UK Offshore Licensing Round announced in July 2003. The work programme agreed to with the DTI will be the purchase of 200 km of 2D seismic data on the blocks. As these blocks were awarded under the Promote Round, a further work programme will be proposed which will require DTI approval before the licence can proceed into the third and fourth year of the first phase.

No current production exists on the licence, although it is directly adjacent to the Amethyst and Saltfleetby Fields. Leads at several reservoir levels are being mapped in order to rank the exploration leads and prospects within the acreage.

The Company has a commitment to purchase 2D seismic data at an anticipated cost of approximately US$11,000.

Spain

Property Description and Location

In late 2003 PDA was successful in being awarded of rights to explore and develop oil and gas in four Research Permits covering approximately 1,300 km2 of onshore northern Spain. The area is located entirely within the autonomous province of Aragón , near to the city of Huesca and lies approximately 60km southeast of the existing Serrablo gas field.

Interest in the Property

The Company by way of its wholly owned subsidiary PDA Iberica S.L. has a 100% operating interest in all four Research Permits. The Permits are valid for a six-year initial term with complete and/or partial relinquishment decisions being made on an annual basis.

History

Through one of its predecessor companies, Serica had been studying the region of the Permits for a number of years and on the basis of proprietary knowledge recognised that a viable petroleum system is proven within the area, but to date the amount of commercial hydrocarbon production is extremely limited, and the system is not well understood.

Part of the evidence for the new system is from state-of-the-art geochemical analysis of certain rock and oil samples which enables the extracted hydrocarbons to be "finger-printed" and broadly aged. This evidence, combined with Company's extensive geological knowledge of Spain, challenges the current view of the hydrocarbon systems that are likely to exist in this part of Spain, and refutes conventional wisdom that limited prospectivity occurs in the region.

Exploration & Development Activities

There is neither existing production nor any known discoveries on the Abiego, Peraltilla, Barbastro and Binéfar licences. The proposed work program during 2004 requires the Company to re-process and re-interpret existing 2D seismic data, conduct geological field based exploration studies and to undertake further geochemical analysis of oil seeps in the area. Anticipated costs for the 2004 program are approximately US$0.3mm.

An Important Notice to Shareholders and other users of The Serica Annual Report

In the sections that follow, the Kyrgoil and PDA Annual Reports have been incorporated into this Serica Annual Report. As such, they describe the events of 2003 as if both Kyrgoil and PDA are still going concerns.

This is not the case, however. The companies were merged into Serica at the time of the TSX Venture listing of the Company in February, 2004. Therefore, the documents must be read as historical information and their inclusion in this report as matters of record only. The Letter to Shareholders and Projects Review sections appearing earlier in this report describe the past and current activities, as well as the prospects for future growth of Serica that should be of primary interest to the bulk of readers of this report.

Christopher Rivett-Carnac

President and CEO

Serica Energy Corporation

Kyrgoil Holding Corporation

Annual Report 2003

Contents

Corporate profile

Kyrgoil Holding Corporation, incorporated in the British Virgin Islands as an International Business Company effective November 20, 2000 is a resource company conducting petroleum exploration, development, production, refining and marketing operations solely in the Kyrgyz Republic in Central Asia. Kyrgoil operates through Kyrgyz Petroleum Company, a joint venture between Kyrgoil and Kyrgyzneftegaz, the Kyrgyz national oil company. Kyrgoil is listed on the Toronto Stock Exchange under the symbol "KGO".

Overview

	2003	2002
Revenues	**$ 7,119,993**	$ 10,053,763
Cash flow from operations	**$ (1,350,563)**	$ (765,914)
Per share	**$ (0.010)**	$ (0.006)
Profit (Loss)	**$ (13,063,516)**	$ (1,153,474)
Per share	**$ (0.099)**	$ (0.009)
Capital expenditures	**$ 7,959**	$ 113,194
Long-term Liabilities	**$ 132,667**	$ 154,272
Shareholders' Equity	**$ 7,821,669**	$ 20,790,185
Common shares outstanding	**132,894,141**	131,194,141
Crude oil production (bpd)		
Kyrgyz Petroleum Company Incremental Production	**12**	20
Kyrgyz Petroleum Company 25% share of Kyrgyzneftegaz Production	**312**	350
Kyrgyz Petroleum Company Total Production	**230**	370
Kyrgoil share of Kyrgyz Petroleum Company Total Production		**115**
185		
Refinery Throughput (bpd)		
Gross	**1,848**	2,520
KPC share	**896**	1,294
Kyrgoil share	**448**	647

All dollar amounts in this report are in Canadian Dollars unless otherwise stated.

Message to Shareholders

Kyrgoil's strategy for 2003, executed through Kyrgyz Petroleum Company ("KPC"), was to increase operating cash flow by augmenting refinery throughput of crude oil with high gasoline and diesel-yielding feedstocks (naphtha and semi-refined middles distillates) and to increase market share in the Kyrgyz Republic. In addition, the Corporation continued to pursue an aggressive cost-cutting strategy and to look for joint venture partners for its upstream operations.

KPC continued to work on expanding market share and optimizing operations in the Kyrgyz Republic. However, profitability declined because of reduced sales and gross margin. Gross margins fell due to declining selling prices for petroleum products against stagnant average feedstock prices.

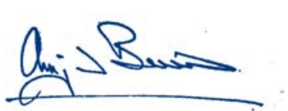
A comparison of throughput, volumes and prices for 2003 and 2002 are as follows:

Refining Summary	**2003**	**2002**	**Variance**
KPC Throughput - BPD	896	1,294	-30.8%
KPC Sales Volumes in bpd			
Gasoline	454	839	-45.9%
Diesel	178	273	-34.8%
Fuel Oil	237	222	6.7%
Total*	869	1334	-34.9%
KPC Average Sales Price US $/Bbl			
Gasoline	35.98	28.00	28.5%
Diesel	33.54	26.99	24.3%
Fuel Oil	8.01	8.61	-7.0%
Feedstock Prices US $/Bbl	13.55	14.79	-8.3%
Operating Costs US $/Bbl	10.67	7.95	34.2%
Gross Margin US $/Bbl	14.29	9.77	46.3%

*Sales exceeded throughput due to inventory drawdown in 2002

Sale of Asset & Merger

The disposal of KPC and the merger with Petroleum Development Associates ("PDA") has been completed on January 29th, 2004, which constitutes a reverse take over by PDA group. The merged entity is Known as Serica Energy Corporation which shall continue the business of the PDA group.



Amjad Bseisu
Director
May 8, 2004

Summary of the terms and conditions of Kyrgoil's investment in the Kyrgyz Republic

Corporate Structure

Kyrgoil Holding Corporation ("Kyrgoil" or the "Corporation") owns 50 percent of the shares issued by Kyrgyz Petroleum Company ("KPC"). Kyrgoil appoints two of the four members of the KPC Board of Directors, including the Chairman who has the right to cast a deciding vote except on those matters requiring unanimous approval. Kyrgyzneftegaz ("KNG") owns the remaining 50 percent of KPC shares and appoints two directors on the KPC Board. KNG is 80 percent owned by the Government of the Kyrgyz Republic, operates approximately 400 oil and/or natural gas wells and has approximately 2,000 employees.

KPC is a Kyrgyz company incorporated in May 1996 to utilize Western technology and expertise to increase crude oil production in the Kyrgyz Republic, build the country's first oil refinery, and produce gasoline, diesel and fuel oil for the domestic market. KPC's mission is to assist the Kyrgyz Republic to become energy self-sufficient, in a manner that will maximize returns to shareholders.

Summary of KPC's rights

Oilfield Rights

Under the terms of the Shareholders' Agreement and Investment Agreement among KPC, the Government of the Kyrgyz Republic and others, KPC has the exclusive right to complete, re-complete and re-work producing and non-producing wells and to drill new wells within 12 defined licensed areas ("Licensed Areas") in the Fergana Basin within the Kyrgyz Republic. This concession encompasses approximately 1.6 million acres. In addition to exploration and development rights in the Licensed Areas, KPC also has the right to utilize all existing infrastructure including roads, civil services and existing pipelines.

KPC's right to enhance production and drill in the Licensed Areas is exclusive. KPC earns all incremental oil and gas produced from wells worked over, re-completed or drilled in the Licensed Areas. KNG will continue to own the oil and gas that it produces from its previously drilled wells or from any new wells that it drills.

Refining and Marketing Rights

KPC has the exclusive right to refine or process all oil, gas and other hydrocarbons produced in the Kyrgyz Republic except for 2,000 bpd, which KNG may direct to a refinery that it has the right to construct and operate, and which has yet to be built. KPC also has a non-exclusive right to refine imported oil, gas and other hydrocarbons free from any Kyrgyz import duties.

KPC has the right to sell its refined products inside or outside the Kyrgyz Republic. Prices received by KPC for refined petroleum products are determined in a free market. Under the terms of the Investment Agreement, the Kyrgyz Government has agreed not to regulate, fix or control the selling price or production levels of KPC's products.

Profit Distribution Rights

Profits are to be distributed 70 percent to Kyrgoil and 30 percent to KNG before payout of each shareholder's initial contribution (US $29 million for Kyrgoil and US $12.4 million for KNG) and 50:50 thereafter. KPC has till date repaid US $2.783 million of which Kyrgoil received US $1.948 million being the 70% share.

Fulfillment of Investment Requirements

Kyrgoil's obligations under the Shareholders' and Investment Agreements were to invest US $23 million by way of an initial contribution before the end of 1997 and to build a 5,000-barrel-per-day refinery by October 1996. Kyrgoil has exceeded its obligations by investing US $29 million and constructing a 10,000-barrel-per-day refinery in Dzhalal-Abad, which was commissioned in October 1996. In addition, Kyrgoil loaned US $3.5 million to KPC. The loan bore interest at 8 percent per annum, was fully secured by KPC's assets and was repayable in full before the repayment of any portion of the shareholders' contributions or any profit distributions. The US $3.5 million loan was settled in full in 2000.

KNG's obligation was to provide a site for the refinery, relinquish to KPC the exploitation licenses covering the Licensed Areas, and grant KPC free use of all pipeline transportation systems and infrastructure. KNG's initial contribution is deemed to be US $12.4 million. In 2001, twelve research licenses were issued to the Company to conduct scientific and economic research. In January 2004 management of KPC returned 8 licenses to Kyrgyzneftegaz and retained 4 licenses.

KPC's Fiscal Regime

Under the terms of the Investment Agreement, the Kyrgyz Government has granted certain tax benefits limiting the taxes payable by KPC to the following:

Profit Tax

KPC is exempt from Kyrgyz profit tax for five years from the date of first profit and, for purposes of determining profit, will be entitled to carry forward losses for up to seven years. After the expiry of this tax holiday, any profit tax payable by KPC will be calculated at the rate of 30 percent of KPC's profit.

Road Tax

Kyrgyz road tax calculated at the rate of 0.8 percent of KPC's gross revenue.

Emergency Fund Tax

Kyrgyz emergency fund tax calculated at the rate of 1.5 percent of KPC's gross revenue.

Payroll Tax

Kyrgyz payroll tax (including Kyrgyz income taxes and contributions to Kyrgyz pension, social, employment and security funds) for Kyrgyz employees, consultants and contractors hired by KPC, Kyrgoil and foreign contractors calculated at the rate established by Kyrgyz law. The rate of tax is determined on a sliding scale based on the salary bracket of the individual.

Value Added Tax

Kyrgyz value added tax ("VAT") in respect of goods purchased and services contracted in the Kyrgyz Republic. KPC, Kyrgoil and foreign contractors are not liable for Kyrgyz VAT on goods purchased and services contracted for outside the Kyrgyz Republic.

KPC was exempt from charging and collecting VAT on the sale of any of its products until May 26, 2001. Thereafter, Kyrgyz VAT payable in respect of KPC's products will be calculated at the rate established by Kyrgyz law (not to exceed the current rate of 20 percent).

In order to realize the intended benefits of the VAT exemption and in response to the needs of its customers, KPC negotiated a new agreement with the Kyrgyz Government whereby, effective May 1, 1998. KPC was allowed to flow through to its customers the VAT paid on its purchases of goods and services. For purposes of implementing this mechanism, KPC registered as a VAT payer for Kyrgyz tax purposes effective May 1, 1998. Before May 26, 2001, customers had the option of requesting an invoice with or without VAT. This agreement was valid to the end of the VAT exemption period and did not affect the other tax advantages provided under the Investment Agreement.

In addition, KPC, Kyrgoil and its foreign contractors are exempt from import duties and other similar taxes on imports of materials, supplies, equipment, feedstock and other petroleum products.

The Kyrgyz Government has covenanted that no Kyrgyz Republic taxes assessed against or in respect of KPC, Kyrgoil or any foreign contractors will be discriminatory in effect. Further, any future decreases in tax rates specified above will also be granted and no future increases in such rates will apply to KPC, Kyrgoil or its contractors. The Kyrgyz Republic's Minister of Justice has confirmed the legality and enforceability of the Kyrgyz covenants in the Investment Agreement and the Government has upheld this position on several occasions.

Operating Review

Kyrgyzstan and the oil and gas fields of the fergana basin

Oilfield Operations and Reserves

The Corporation's oilfield operations have not been profitable. The original business plan based on a model of well workovers and fracturing was not economically feasible. Incremental oil production from the workover and re-fracture of 21 oil wells in the Mayli-Su IV field has declined from an initial rate of 150 barrels per day ("bpd") to 12 bpd in 2003. During 2001 and 2003, KPC returned seven and five wells respectively to Kyrgyzneftgaz where the base production exceeded the actual production. During 2003 activity in the oilfields was limited to maintenance of the nine wells previously fractured. KNG operates the oil wells on behalf of the Corporation.

Kyrgoil has modified its business plan to concentrate on refining and marketing of petroleum products through KPC in the Kyrgyz Republic. Kyrgoil will strive to generate profits and cash flow through higher throughput and sales

Refining

KPC operates a 10,000 bpd capacity oil refinery located in Dzhalal-Abad, in the southern region of the Kyrgyz Republic. The refinery produces A-76 leaded gasoline, A-80 unleaded gasoline, diesel and fuel oil.

The refinery was designed to process typical Kyrgyz crude oil, which is 30 API sweet crude. Due to the nominal production of Kyrgyz crude oil, KPC imports gas condensate, naphtha, and semi-refined middle distillates feedstock from neighboring countries to increase refinery throughput. These imported feedstocks have gasoline yields of 65% or higher, significantly greater than the 13-15% gasoline yield from crude oil.

In 2003, gross refinery throughput averaged 1,848 bpd (896 bpd net to KPC and 448 bpd net to Kyrgoil). Net refinery throughput included 416 bpd of naphtha, semi-refined middles distillates and technical kerosene feedstock and 451 bpd of crude oil (312 bpd representing KPC's 25% share of KNG's base oil earned as a processing fee, 12 bpd of incremental production, 61 bpd third party crude, 64 bpd Anbang Crude and 2 bpd NGS crude). The balance of 29 bpd of throughput was additives and slops. Gross refinery throughput includes KNG's 75% share of base oil production of 945 bpd.

Marketing

KPC 's sells its refined products in the Kyrgyz Republic, primarily in the southern region of the country. KPC's sales volumes in 2003 were 454 bpd of gasoline, 178 bpd of diesel and 237 bpd of fuel oil. Products are sold primarily wholesale from the refinery. Prices are denominated in Kyrgyz soms and set by the market, although KPC tends to be the low price leader in the southern region of Kyrgyzstan. KPC attempts to maintain its revenues in equivalent US dollars by adjusting its prices to compensate for changing exchange rates. The primary competition in the southern Kyrgyzstan is from contraband products, primarily from Uzbekistan.

Short-Term Goals

The Corporation's goal in 2003 was to continue to improve cash flow from refining and marketing operations. Refinery throughput was supplemented by imported feedstock to maximize the production of gasoline and diesel. KPC will attempt to increase market share through consolidation of its customer base in the southern region of the Kyrgyz Republic and expansion of sales in the northern part of the country. Additionally, KPC will continue to optimize operation and overhead costs.

Management's discussion and analysis

The following discussion and analysis of the financial and operating results of Kyrgoil Holding Corporation ("Kyrgoil" or "Corporation") should be read in conjunction with Kyrgoil's consolidated financial statements which include its wholly-owned subsidiary France Hydrocarbons Limited and its proportionately consolidated 50% interest in Kyrgyz Petroleum Company ("KPC").

Kyrgoil's results are reported in Canadian dollars whereas KPC's business activities are reported in US dollars and therefore references in this discussion may be to transactions in either currency.

Results of Operations

Kyrgoil suffered a loss of $13,063,516 ($0.099 per share) in 2003 compared to a loss of $ 1,153,474 ($0.009 per share) in 2002. Operating cash flow loss for 2003 was $1,350,563 ($0.010 per share) compared to $765,914 ($0.006 per share) in 2002.

Revenues decreased 29% from $10,053,763 in 2002 to $7,119,993 in 2003. The decline in revenue was a result of lower sales volumes which fell by 34.9% to 869 bpd from 1,334 bpd in 2002. Average gross margin improved from US$ 9.77 per barrel in 2002 to $14.29 per barrel in 2003 – a 46% increase.

Operating costs decreased 20.8% from $3,706,054 in 2002 to $2,960,684 however processing volumes decreased 69.6%. General and administrative expenses decreased 48.4% from $513,415 in 2002 to $248,557 mainly on account of reduced activities at Kyrgoil as it was decided to sell the refinery. Average feedstock price was lower by 8.4% in 2003.

Depletion, depreciation, and amortization of site restoration costs were $ 11,728,905 in 2003 compared with $ 405,446 in 2002. The increase is primarily due to the impairment provision of $ 11,382,932 made on the KPC investment to adjust the value to its estimated fair value.

During the year, Kyrgoil suffered a huge exchange loss of $451,687 as it held its cash and cash equivalents in US$ which depreciated against Canadian $.

Liquidity and Capital Resources and Changes in Financial Condition

As at December 31, 2003, Kyrgoil had working capital of $5,569,373 including a cash balance of $3,609,601.

In 2003, the Corporation incurred capital expenditures of $7,959 on refinery infrastructure against $113,194 incurred in 2002.

There are options outstanding which permit the holders to purchase common shares of Kyrgoil from its treasury at a variety of prices over various periods during the next five years. The details of the options and warrants outstanding are given in the notes to the accounts.

Kyrgoil contributed US $29 million to KPC (in addition to the deemed US $12.4 million contributed by KNG) to fund KPC's investment requirements. KPC may at its discretion, subject to availability of funds return the initial contribution in the ratio of 70% to Kyrgoil and 30% to KNG, up to such time total distributions paid equal the initial contribution. Thereafter, distributions are made on a 50%/50% basis. During the year, the Corporation received an amount of US$ 466,667 being the part repayment of initial contribution.

During the year, the Corporation completed the merger of itself with Petroleum Development Associates ("PDA") with final regulatory approvals being obtained on January 29, 2004. The merger constitutes a reverse take over of the corporation by PDA. Under the terms of the merger agreement, the corporation will sell its interest in KPC and continue the business of the PDA group.

Business Risks and uncertainties

The merger has resulted in a reverse takeover of the company by PDA , hence the corporation would face the risks associated with the PDA business. PDA, like all 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.

Managements' Report

The management of the Corporation has prepared the accompanying financial statements and all information in this Annual Report. The financial data in the text of the Annual Report, also prepared by management of the Corporation, is consistent with the financial statements and the underlying information from which they were prepared.

Management is responsible for the integrity and objectivity of the financial statements. Management has established systems of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of the financial statements. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada.

Ernst & Young, an independent firm of Chartered Accountants appointed by the shareholders as external auditors have reviewed the systems of internal control and audited the financial statements in accordance with generally accepted auditing standards.

The Audit Committee of the Board of Directors has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors on the recommendation of the Audit Committee has approved the financial statements.

Amjad Bseisu
Director

Felix Lobo
Chief Financial Officer

Auditor' Report

To the Stockholders of Kyrgoil Holding Corporation

We have audited the consolidated balance sheets of Kyrgoil Holding Corporation as at 31 December 2003 and 2002 and the consolidated statements of income, cash flows and stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young

Ernst & Young
May 14, 2004
Dubai

Consolidated Statement of Loss

Year ended 31 December

	Notes	2003 CAN$	2002 CAN$
Revenues			
Sale of refined products		**6,501,192**	9,366,674
Processing fees	5	**594,101**	647,305
Other		**24,700**	39,784
	13	**7,119,993**	10,053,763
Expenses			
Purchase of feedstock		**(3,930,740)**	(5,613,517)
Operating expenses	7	**(2,960,684)**	(3,736,058)
Depreciation, depletion and impairment	8	**(11,712,953)**	(387,560)
General and administrative expenses	7	**(248,557)**	(513,415)
Provision for future site restoration	11	**(15,952)**	(17,886)
Write down of inventory		**-**	(674,085)
Taxes other than on income	10	**(394,241)**	(245,728)
		(19,263,127)	(11,188,249)
Loss from operations before the following		**(12,143,134)**	(1,134,486)
Exchange (loss) gain on translation of foreign currency financial statements		**(483,496)**	15,440
Exchange loss - others		**(451,687)**	-
Other income (expenses)		**14,801**	(34,428)
Net loss for the year	9	**(13,063,516)**	(1,153,474)
Loss per share			
- Basic	14	**(0.099)**	(0.009)
- Diluted	14	**(0.098)**	(0.009)

The accompanying accounting policies and explanatory notes to the consolidated financial statements on pages 21 through 31 should be read in conjunction with the consolidated financial statements.

Consolidated Balance Sheets

Year ended 31 December

	Notes	**2003 CAN$**	2002 CAN$
Assets			
Current assets			
Cash and cash equivalents	4	**3,609,601**	3,709,762
Accounts receivable	5	**85,214**	627,255
Inventories	6	**1,741,964**	1,962,220
Prepayments and other assets		**1,191,910**	759,097
		6,628,689	7,058,334
Non-current assets			
Property, plant and equipment	8	**2,384,963**	14,319,547
Total Assets		**9,013,652**	21,377,881
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable and accrued expenses		**869,314**	257,259
Amount due to a related party	7	**149,918**	136,174
Other current liabilities	10	**40,084**	39,991
		1,059,316	433,424
Non-current liabilities			
Other long-term liabilities	11	**132,667**	154,272
Stockholders' equity:			
Share capital	12	**50,751,166**	50,656,166
Accumulated deficit		**(42,929,497)**	(29,865,981)
Total stockholders' equity		**7,821,669**	20,790,185
Total Liabilities and Stockholders' Equity		**9,013,652**	21,377,881
Commitments and Contingencies	**10,16**		

The accompanying accounting policies and explanatory notes to the consolidated financial statements on pages 21 through 31 should be read in conjunction with the consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended 31 December

	Note	2003 CAN$	2002 CAN$
Operating activities			
Net loss for the year		**(13,063,516)**	(1,153,474)
Adjustments for:			
Depreciation, depletion and impairment		**11,712,953**	387,560
Funds from operations before working capital changes:		**(1,350,563)**	(765,914)
Accounts receivable		**542,041**	(331,766)
Inventories		**220,256**	1,162,897
Prepayments and other assets		**(432,813)**	(285,566)
Accounts payable and accrued expenses		**612,055**	52,242
Amount due to a related party		**13,744**	(118,416)
Other current liabilities		**93**	(197,627)
Net cash used in operating activities		**(395,187)**	(484,150)
Investing activities			
Additions to property, plant and equipment		**(7,959)**	(113,194)
Proceeds from sale of property, plant and equipment		**-**	19,712
Recovery of additional contributed capital to KPC		**229,590**	-
Net cash from (used in) investing activities		**221,631**	(93,482)
Financing activities			
Issue of share capital		**95,000**	-
Repayment of long-term liabilities		**(21,605)**	-
Net cash from financing activities		**73,395**	-
Decrease in cash and cash equivalents		**(100,161)**	(577,632)
Cash and cash equivalents at the beginning of the year		**3,709,762**	4,287,394
Cash and Cash Equivalents at the end of the year	4	**3,690,601**	3,709,762
Supplemental disclosure of cash flows information			
Cash received during the period:			
Interest income		**9,040**	16,751

The accompanying accounting policies and explanatory notes to the consolidated financial statements on pages 21 through 31 should be read in conjunction with the consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Year ended 31 December

	Number of common shares	*Share capital* CAN$	*Accumulated deficit* CAN$	*Total* CAN$
Balance at 31 December 2001	131,194,141	50,656,166	(28,712,507)	21,943,659
Net loss for the year	-	-	(1,153,474)	(1,153,474)
Balance at 31 December 2002	131,194,141	50,656,166	(29,865,981)	20,790,185
Issue of share capital on exercise of options (Note 12)	1,700,000	95,000	-	95,000
Net loss for the year	-	-	(13,063,516)	(13,063,516)
Balance at 31 December 2003	**132,894,141**	**50,751,166**	**(42,929,497)**	**7,821,669**

The accompanying accounting policies and explanatory notes to the consolidated financial statements on pages 21 through 31 should be read in conjunction with the consolidated financial statements.

The accompanying accounting policies and explanatory notes to the consolidated financial statements on pages x through x should be read in conjunction with the consolidated financial statements.

Notes to Consolidated Financial Statements

At December 2003

1. Organization and Nature of Business

Kyrgoil Holding Corporation (the "Company") was formerly incorporated in Canada and is listed on the Toronto Stock Exchange. On 20 November 2000, the Company was continued in the British Virgin Islands and is deemed to be incorporated in the British Virgin Islands as an international business company. Further due to the continuation in the British Virgin Islands, the Company was required to change its name from Kyrgoil Corporation to Kyrgoil Holding Corporation.

The Company is principally engaged in exploring, developing, enhancing, producing, transporting, refining, marketing and selling hydrocarbons from wells in the oil and gas regions of the Kyrgyz Republic through its joint venture interest in Kyrgyz Petroleum Company (KPC), which is incorporated in the Kyrgyz Republic. The joint venture partner in KPC is Kyrgyzneftegaz (KNG), a legal entity formed under the laws of Kyrgyz Republic (Note 13).

On October 22, 2003, the Company entered into an agreement to merge with Petroleum Development Associates ("PDA"). As a result a Pre-Merger Agreement was signed under which they agreed to complete the merger in accordance with the International Business Corporations Act (IBCA). A merger under the IBCA is the equivalent of an amalgamation under Canadian law. The corporation resulting from the merger will continue under the new name of Serica Energy Corporation ("Serica") and will be governed by the provisions of the IBCA. The merger with PDA, constitutes a reverse takeover. The merger was approved by the shareholders on 29 December 2003 and stock exchange approval was obtained on 29 January 2004. Under the terms of the merger agreement, the company will sell its interest in KPC to Petrofac Resources International Limited ("PRIL") for a fixed amount. This consideration will be settled partly by cancellation of PRIL's holding in the company and partly by cash.

2. Current Economic Environment and Going Concern Uncertainty

General

In recent years, Kyrgyzstan has undergone substantial political and economic change. As an emerging market, Kyrgyzstan does not possess a well-developed business infrastructure, which generally exists in a more mature free market economy. As a result, operations carried out in Kyrgyzstan can involve significant risks, which are not typically associated with those in developed markets. Some of the uncertainties regarding the political, legal, tax or regulatory environment, including the potential for adverse changes in any of these factors could significantly affect the Company's ability to operate commercially. Management is unable to estimate what changes may occur or the resulting effect of any such changes on the Company's financial condition or future results of operations.

The refined product markets in Kyrgyzstan have for some time been inherently competitive. In 2003 and 2002 competition has been continuing to be affected by the illegally imported products from neighbouring countries. KPC management has attempted to influence the Kyrgyz Government to take actions to restrict the import of such products. However, management is unable to predict the outcome of its actions, nor is it able to predict how the continued import of illegal products, if not controlled, could impact the Company's product marketing and its profitability. In April 2003 the Government of Kyrgyz Republic reduced the excise tax rate for imported refined products, which negatively affected the results of the operations of KPC for the year ended 31 December 2003.

KPC's ability to operate on a profitable basis is dependent upon continuous supply of refinery feedstock and additives. KPC imports feedstock for production of gasoline and diesel products substantially from neighbouring countries. KPC has not found it economically attractive to execute long-term supply contracts, as suppliers in this region require fixed price contract terms. Fixed priced supply contracts would expose KPC to significant price risk due to the volatility in the market. Financial risk management instruments are not available in the market to manage price volatility.

Going concern uncertainty

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's joint venture KPC has experienced operating losses for the years ended 31 December 2003 and 2002. KPC's ability to continue as a going concern is dependent upon achieving profitable operations. The outcome of these matters cannot be predicted at this time. These financial statements do not contain any adjustment to the amounts and classifications of assets and liabilities that might be necessary should KPC be unable to continue in business.

3. Significant Accounting Policies

Currency exchange

Foreign currencies, in particular the US Dollar ('US $'), play a significant role in the underlying economics of many business transactions in Kyrgyzstan. The following table summarises the exchange rate of the Kyrgyz local currency ('Som'), established by National Bank of Kyrgyz Republic (NBKR), to US $ for the years ended 31 December 2003, 2002 and 2001 and 2000.

As at 31 December	Exchange rate
2003	44.19
2002	46.09
2001	47.72
2000	48.30

Basis of presentation

The consolidated financial statements have been prepared under the historical cost convention in accordance with Canadian generally accepted accounting principles and are stated in Canadian Dollars (CAN$).

The financial statements consolidate the accounts of the Company, France Hydrocarbons Limited (an inactive wholly owned subsidiary incorporated under the laws of Cyprus) and the Company's 50% proportionate share in KPC (a joint venture incorporated in the Kyrgyz Republic). The investment in KPC is accounted for using the proportionate consolidation method, whereby the Company's proportionate interests in the joint venture's assets, liabilities, revenues and expenses are consolidated on a line-by-line basis with those of the Company. All significant transactions and balances between the Company and KPC have been eliminated on consolidation.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of property, plant and equipment, the provision for site restoration and abandonment and the ceiling test calculations are based on estimates of gross proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

Revenue and cost recognition

Revenues and expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash is received or paid, and are reported in the statement of income in the period to which they relate. KPC's revenues from sale of oil products are settled in Som and US$.

Revenues and expenses settled in offset and barter transactions are recorded at the fair value of the services or goods received representing the fair value of goods exchanged.

The value of refined products earned as a processing fee from refining Kyrgyzneftegaz feedstock is equivalent to the cost of refining the underlying crude. The processing fee is included in revenues and the refining cost is included in operating expenses. The refined products are recorded as inventory until sold.

Provisions for site restoration and abandonment costs are charged to operations over the estimated useful life of the refinery.

Cash and cash equivalents

The Company considers all highly liquid securities with original maturities of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable are stated net of provision for doubtful debts and discounts. Provision for doubtful debts is based on management's assessment of accounts receivable and creditworthiness.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of refined petroleum products held for sale is determined on the basis of refining costs, including applicable feedstock and refinery operating costs. The cost of refined petroleum products is assigned by using the first-in, first-out (FIFO) method. The cost of other items of inventory is determined using the weighted average method. Provision is made for obsolete and slow-moving inventory items based on management's judgment.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and depletion.

The Company follows the full cost method of accounting for exploration and development expenditures wherein all costs related to the exploration for and the development of oil and gas reserves are capitalized. These costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling and completing wells and oil and gas production equipment.

Depletion of exploration and development costs and depreciation of production equipment is provided on the unit-of-production method based upon estimated proven oil and gas reserves, as determined by independent engineers.

Oil and gas properties are carried at the lower of capitalized cost or net recoverable value. Net recoverable value is future net revenues from proven reserves plus unproved properties at cost less impairment, if any. Future net revenues are estimated using unit prices and production costs in effect at year end and include future costs to develop proved reserves, overhead costs, financing charges and income taxes that will be incurred in earning these revenues.

The depreciation on the other property, plant and equipment is provided using the straight-line method over the estimated useful lives as follows:

Refinery	25 years
Buildings	20 years
Plant and machinery	5 years
Furniture and fixtures	5 years
Office equipment	3 to 4 years
Vehicles	4 years

Depreciation is provided on assets from the date they are put into use. Capital work-in-progress is not depreciated unless the asset is capitalised.

Income taxes

Future income taxes are accounted for using the liability method where the expected tax effects of temporary differences are determined and reported either as "future tax liabilities" for amounts which will be taxable in future periods, or as "future tax assets" for amounts which represent future tax deductions. Future tax assets are recognized to the extent that it is more likely than not that a future income tax asset will be realized.

Foreign currency translation

Foreign currency financial statements are translated based on the temporal method. The resulting exchange difference is taken to the statement of loss.

Monetary assets and liabilities denominated in currencies other than the Canadian Dollar at the balance sheet date are reported at the rate of exchange prevailing at that date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses arising in foreign currencies are recorded in the books of account at prevailing rates of exchange at the date of the transaction. Any gain or loss arising from a change in exchange rates subsequent to the date of the transactions is reflected in the statement of loss.

The Company's functional currency is Canadian Dollars.

Stock based compensation

The Corporation has a stock based compensation plan, which is described in note 12.

As options are issued at current market value, the option has no intrinsic value and therefore, no compensation expense is recorded when the options are granted. Consideration paid by optionees on the exercise of stock options is credited to share capital.

Direct awards of stock to employees and stock option awards granted to non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock is determined by reference to the quoted market price of the Corporation's stock and the fair value of stock options is determined using the Black Scholes option pricing model. In periods prior to January 1, 2002, the Corporation recognized no compensation expense when stock or stock options were issued to employees.

Loss per share

Diluted loss per share is calculated using the treasury stock method, whereby it is assumed that proceeds on the exercise of stock options and warrants are used by the Company to repurchase Company shares at the weighted average market price during the period.

4. Cash and Cash Equivalents

	2003	2002
	CAN$	CAN$
Cash and cash equivalents	**3,609,601**	3,709,762

The bank deposits held by the Company with commercial banks carry interest rates ranging from 0.3%-0.9%.

5. Accounts Receivable

Accounts receivable include CAN$ 53,289 (2002: CAN$ 261,120) due from KNG which consists of a short-term loan (interest free with no fixed maturity), cash advances, product advance, the value of overlifts and payments for third party services made by KPC on behalf of KNG, less amounts due to KNG for expenses incurred in producing incremental production.

Transactions occurring in the normal course of business may result in KNG being in an overlift or an underlift position relative to one of the refined products. An overlift on the part of KNG is reflected as accounts receivable on the Company's balance sheet valued at an amount equal to the quantity of product overlifted multiplied by the inventory carrying value of one unit of such product. Underlift quantities are not reflected on the Company's balance sheet, as the underlying inventory is not owned by the Company. KNG is in an accumulated underlift position with the KPC as at 31 December 2003 amounting to CAN$ 26,088 (2002: CAN$ 59,945).

Under the Investment Agreement (Note 13), KNG provides feedstock crude oil to KPC. In return for processing the feedstock, KPC receives a processing fee equal to 25% of the volume of refined products produced from the feedstock. The value of refined products earned as processing fees and put into inventory is CAN$ 594,101 (2002: CAN$ 647,305).

6. Inventories

	2003	2002
	CAN$	CAN$
Refined petroleum products held for sale	**542,499**	505,401
Feedstock	**514,443**	743,896
Refinery spare parts and others	**367,509**	609,107
Chemicals	**287,346**	49,213
Goods in transit	**30,167**	54,603
	1,741,964	1,962,220

7. Related Party Transactions

Related parties include shareholders and their affiliates, members of the Board of Management and key management personnel. Amount due to a related party represents amount due to Petrofac Resources International Ltd.

In 1996 the Company contracted Petrofac International Ltd., to provide personnel to construct the refinery. Petrofac International Ltd., at the request of the Company, also seconded personnel to provide management and technical services to KPC. Petrofac International Ltd. assigned its rights and liabilities under the contract to Petrofac Resources International Ltd. (Petrofac Resources) in 1997. Subsequent to 1996, Petrofac Resources became a significant shareholder of the Company through purchase and conversion into equity of amounts owed to Petrofac Resources by the Company. As at 31 December 2003, Petrofac Resources owned 65% (2002: 65%) of the Company's shares.

During the year, Petrofac Resources charged KPC for various services such as refinery operating fees, management service fees and for other miscellaneous services as follows:

	2003	2002
	CAN$	CAN$
Operating and management fees	**1,427,464**	1,525,098
Purchase of materials and payments for services on behalf of KPC	**329,913**	316,438
	1,757,377	1,841,536

8. Property, Plant and Equipment

	Oil and gas properties CAN$	Refinery CAN$	Buildings CAN$	Plant and machinery CAN$	Furniture and fixtures CAN$	Office equipment CAN$	Vehicles CAN$	Capital Work-in-progress CAN$	Total CAN$
Cost									
At 1 January 2003	24,346,187	16,511,364	700,068	365,795	153,691	349,464	179,326	6,821	42,612,716
Additions	-	-	-	3,746	-	4,213	-	-	7,959
Recovery of additional contributed capital to KPC	-	(215,148)	(6,531)	(2,694)	(1,232)	(3,141)	(844)	-	(229,590)
At 31 December 2003	**24,346,187**	**16,296,216**	**693,537**	**366,847**	**152,459**	**350,536**	**178,482**	**6,821**	**42,391,085**
Depreciation									
At 1 January 2003	24,266,216	3,256,635	127,962	199,294	91,826	247,670	103,566	-	28,293,169
Charge for the year	-	682,985	27,963	46,239	11,082	18,784	25,900	-	812,953
Impairment	-	10,900,000	-	-	-	-	-	-	10,900,000
At 31 December 2003	**24,266,216**	**14,839,620**	**155,925**	**245,533**	**102,908**	**266,454**	**129,466**	**-**	**40,006,122**
Net carrying amount									
At 31 December 2003	**79,971**	**1,456,596**	**537,612**	**121,314**	**49,551**	**84,082**	**49,016**	**6,821**	**2,384,963**
At 31 December 2002	79,971	13,254,729	572,106	166,501	61,865	101,794	75,760	6,821	14,319,547

The Company has capitalized all contributions, advances and loans made to KPC as part of its property plant and equipment (Note 13). Recoveries of contributions, advances and loans to KPC are recorded as a reduction of capital assets.

During the year an impairment provision of $10,900,000 was recorded to adjust the net book value of the refinery to its estimated fair value. The impairment provision is based on a bid received and approved by the board of directors for the Kyrgoil Holding Corporation's 50% investment in KPC from a related party (note 1).

9. Provision for Income Taxes

Pursuant to the Investment agreement (Note 13), KPC has a profit tax holiday for a period of 5 years from the date of first profit. Losses incurred by KPC can be carried forward up to seven (7) years following the year such losses were incurred, with the adjustment for inflation, if any and can be deducted from the KPC profit during such seven year period.

As at 31 December 2003, KPC had net tax loss carry forwards of CAN$38,557,862. The tax loss carry forwards by year of expiry are summarised as follows:

2005	22,828,423
2006	15,729,439
	38,557,862

Tax loss carry forwards would result in a net future tax asset of CAN $8,486,208 but no benefit has been recognized since there is no assurance that this future tax asset will be realised.

10. Other Current Liabilities

	2003 CAN$	2002 CAN$
VAT dispute settlement – current portion (Note 11)	**-**	37,227
Payroll, emergency fund and road taxes	**-**	2,764
Other taxes payable by KPC	**40,084**	-
	40,084	39,991

Under the Investment Agreement (Note 13), KPC was granted exemption from the payment of all taxes other than value added tax ('VAT') on goods purchased and services contracted in the Kyrgyz Republic, payroll taxes, emergency fund tax and road tax.

KPC was also granted an exemption from charging and collecting VAT on sales of oil, gas, other hydrocarbons, and refined products for a period of five years and five months from 21 December 1995 to 14 May 2001. In spite of this exemption, KPC charged VAT to its customers from inception until 1 May 1998 but did not remit the VAT to the government. In 1998 the government challenged KPC's approach and requested that past VAT amounts charged be paid to the government. KPC settled this matter with the Kyrgyz Government in 1998 and agreed to pay a total amount of 11.2 million Som in monthly installments over a period of 6 years from 30 June 1998, with interest calculated at 6.6% per annum on the outstanding balance, to settle all outstanding VAT claims by the tax authorities, including fines and penalties, for the period from commencement of operations to 1 May 1998. The amount outstanding as at 31 December 2002 was CAN$ 50,755 including current portion of CAN$ 37,227 and during 2003 this dispute was fully settled.

Kyrgyzstan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profit tax), a number of turnover based taxes, and payroll taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, implementing regulations are often unclear or non-existent. Accordingly, few precedents with regard to issues have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations (like the State Tax Committee and its various inspectorates) thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose significant fines, penalties and interest charges. These facts create tax risks in Kyrgyzstan substantially more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to inspection for a period of five years. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the five-year period.

As described in note 16 in detail, as of 31 December 2003 the tax authorities were claiming from the KPC additional taxes and related penalties related to prior periods amounting to Can $ 854,436 (2002 : Nil)

Management believes that it has adequately provided for tax liabilities in the accompanying financial statements, however, the risk remains that relevant authorities could take differing positions with regard to interpretative issues. There are matters where the interpretation of the tax laws and taxation reserves in the investment agreement adopted by the Company may not be accepted by the Government. Consequently, additional taxes may be assessed including penalties and interest, which could be significant. The outcomes of the aforementioned matters are uncertain. No reserve has been made for these contingencies.

11. Other Long-Term Liabilities

	2003 CAN$	2002 CAN$
Provision for future site restoration and abandonment	**132,667**	140,744
VAT dispute settlement	**-**	50,755
	132,667	191,499
Less: VAT dispute settlement - current portion (Note 10)	**-**	(37,227)
	132,667	154,272

A site restoration and abandonment provision has been established to reflect the estimated cost of the removal of the refinery and restoration and clean up of the site area. The total estimated cost of abandonment is approximately US$ 600,000, which KPC provides over the life of the refinery estimated to be 25 years.

12. Share Capital

At 31 December 2003, the Company has authorized an unlimited number of common shares and unlimited Class A preference shares, which are issuable in series.

At 31 December 2003, the Company had 5,550,000 (2002: 6,800,000) stock options reserved for issuance, of which 3,040,000 have been issued and remain outstanding. A summary of the status of the Company's stock option plan as of 31 December 2003 and 2002, and changes during the year then ended is presented below:

	2003		2002	
Stock Options	**Shares ('000)**	**Weighted Average Exercise Price (CAN $)**	**Shares ('000)**	**Weighted Average Exercise Price (CAN $)**
Balance at January 1	**3,890**	**0.11**	3,965	0.14
Granted	**1,850**	**0.04**	200	0.055
Exercised	**(1,700)**	**0.06**	-	-
Expired	**(1,000)**	**0.28**	(275)	0.44
Balance at December 31	**3,040**	**0.04**	3,890	0.11

The following is a summary of exercisable stock options outstanding as at 31 December 2003 –

Exercise Price (CAN $)	**Exercisable options**	**Expiry Date**
0.04	1,450,000	22 June 2004
0.05	140,000	21 March 2006
0.05	100,000	15 October 2006
0.04	1,000,000	7 September 2004
0.04	200,000	21 September 2004
0.04	150,000	25 March 2008
	3,040,000	

During the year, a few employees and directors exercised the stock options granted to them at an average price of CAN$ 0.06.

The Company has established a stock option plan whereby options may be granted to the Company's directors, officers, employees and consultants. The exercise price of each option equals the market price of the Company's stock on the date of the grant and an option's maximum term is five years. No compensation expense is recognized for the plan when stock options are issued or exercised.

The fair value of options granted during the year was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following assumptions for 2003: risk-free interest rate of 2.00%; dividend yield of 0%; volatility factor of the market price of the Company's common shares of 0.149%; and, an average expected life of the options of 5 years. For purposes of pro-forma disclosure, the estimated fair value of the options is amortized to expense over the option vesting periods. On a pro-forma basis, had the fair value method been used, the net loss for the year ended December 31, 2003 would not change. Basic and diluted net loss per share would be unchanged.

13. Joint Venture

The Company entered into a joint venture with KNG in 1996 (Note 1). The interest in the joint venture is divided equally between the two partners. The rights and responsibilities of the Company, KPC and KNG, are governed by a Shareholders' agreement dated 7 May 1996 and the Charter of KPC dated 8 May 1996. The operations of KPC in the Kyrgyz Republic are conducted in accordance with the Investment Agreement dated 21 December 1995 between the Company and the Government of the Kyrgyz Republic.

Under the agreements, KPC has the exclusive right to complete and rework existing active and inactive wells within the Kyrgyz portion of the Fergana Basin (the 'licensed areas'). The licensed areas cover all existing producing oil and gas fields in the Kyrgyz Republic. KPC also has rights to drill new wells outside the licensed areas within 20 kilometers of any existing well. KPC is entitled to incremental production it achieves from existing wells together with all production from new wells. Incremental production is the excess of actual production over a defined and agreed 'base production' in any month. Base production is the average monthly production achieved in the three-month period before KPC makes any investment in the well.

KPC owns and operates a refinery with a capacity of 10,000 barrels of oil per day. The current activities of KPC are crude oil refining and marketing of its refined products. The feedstock for the refinery consists of incremental crude oil production belonging to KPC and imported feedstock consisting primarily of gas condensate, naphtha and intermediate distillates. KPC also refines crude oil supplied by KNG under tolling arrangements.

KPC currently produces 76 MON leaded gasoline, 76 MON unleaded gasoline, A-80 unleaded gasoline, summer and winter blend diesel and fuel oil ('mazut').

At 31 December 2003, KPC had the exclusive right to complete, recomplete and rework 9 and 14 existing active and inactive wells, respectively. In May 2002 the Company returned five wells to Kyrgyzneftegaz where the base production exceeded the actual production. KPC has not conducted any secondary recovery or other major oilfield workover programs since 1997.

During 2002 KPC performed geophysical research studies on 12 research license areas, the cost of which is capitalized in Oil and gas properties. After 31st January 2004 the licenses have either to be returned in whole or in part to Kyrgyzneftegas or alternatively transferred to development licenses. In January 2004 management of KPC decided to return 8 licenses to Kyrgyzneftegaz and retain 4 licenses. Management will make a decision on the feasibility of converting the retained licenses to development licenses after further data research is carried out as to the economic viability of the development program.

The joint venture partners had contributed additional capital of CAN$ 57 million to facilitate operations of the joint venture, of which the amount contributed by the Company was CAN$ 40 million. The contributions are unsecured, interest free and have no fixed repayment terms. Under the terms of the agreement between the joint venture partners, the distribution is to be made at the rate of 70% to the Company and 30% to KNG until the time the distribution amount reaches the level which is equal to additionally contributed capital.

Since the Company's proportionate interests in the joint venture's assets, liabilities, revenues and expenses are consolidated on a line-by-line basis, the portion of the additional contribution of CAN$ 40 million in excess of the Company 's proportionate share is capitalized as a part of property, plant and equipment (Note 8).

During 2003, KPC repaid US $ 666,667 of the additional contributed capital of which the Company received US $ 466,667 while US $ 200,000 was paid to KNG. Amounts received have been applied to reduce the Company's interest in KPC and against property, plant and equipment (Note 8).

The Company's share of joint ventures' balance sheet comprises:

	2003	2002
	CAN$	CAN$
Current assets	**3,227,702**	4,277,634
Long-term assets	**5,751,111**	9,312,582
Total assets	**8,978,813**	13,590,216
Current liabilities	**448,470**	249,699
Long-term liabilities	**132,667**	154,272
Total liabilities	**581,137**	403,971
Equity	**8,397,676**	13,186,245
Total equity and liabilities	**8,978,813**	13,590,216

The Company's share of joint ventures' statement of loss comprises:

	2003	2002
	CAN$	CAN$
Revenues	**7,119,993**	10,053,763
Expenses	**(9,509,424)**	(10,912,185)
Net loss for the year	**(2,389,431)**	(858,422)

The net loss for the year as stated above is before the impairment loss provided for by the Company.

The Company's share of joint ventures' statement of cash flows comprises:

	2003	2002
	CAN$	CAN$
Net cash provided by operating activities	**965,018**	257,410
Net cash (used in) provided by investing activities	**(11,561)**	(93,490)
Net cash (used in) financing activities	**(448,076)**	(227,173)

14. Loss Per Share

The basic and diluted loss per share were calculated using the weighted average number of common shares outstanding during the period of 132,894,141 (2002: 131,194,141) and 132,677,372 (2002: 131,702,358) respectively.

15. Financial Instruments

Financial instruments of the Company consist of cash and cash equivalents and accounts receivable, amounts due to a related party, accounts payable and other liabilities. At 31 December 2003 there were no significant differences between their carrying values and their estimated fair values.

16. Commitments and Contingencies

Environmental liabilities

KPC has been operating in the Kyrgyz Republic for many years and certain environmental problems have arisen and been resolved in the Company's favour. Nonetheless, environmental regulations in the Kyrgyz Republic are currently subject to changes and the Company evaluates its obligations related thereto. As obligations are determined, depending on their nature, they will be provided for over the estimated remaining lives of the related oil and gas reserves or recognized immediately. The outcome of environmental liabilities under proposed or any future legislation cannot be reasonably estimated. However, under existing legislation management believes there are no significant liabilities that would have a material adverse effect on the Company's financial position or the results of its operations. Therefore, no accrual for such liabilities has been reflected in these financial statements.

Tax Liabilities

Based on the results of the inspection of the KPC's taxes paid for 2001 and 2002, as of 31 December 2003 the tax authorities were claiming from the KPC additional taxes and related penalties in the amount of SOM 58.3 million (equivalent of US $1,320 thousand as of 31 December 2003), including VAT in the amount of US $1,177 thousand and retail sales, road, and emergency fund taxes in the amount of US $143 thousand. The KPC's additional exposure including additional taxes, penalties, and interest in respect of the outstanding disputed matters for the periods subsequent to the inspections carried by tax authorities up to 31 December 2003 approximates US $83 thousand.

Management of believes that these claims are not valid and intends to defend the Company's position in Arbitration in accordance with the dispute resolution procedures defined in the Investment Agreement, if the settlement agreement with the Kyrgyz Government is not reached. KPC recorded a provision of SOM 10 million (US $226 thousand) (see Note 10) in the financial statements for the year ended 31 December 2003 for contingent liabilities that might result from these uncertainties.

Petroleum Development Associates

Annual Report 2003

Contents

Management's discussion and analysis

The following discussion and analysis of the financial and operating results of Petroleum Development Associates (Oil & Gas) Ltd ("pda") should be read in conjunction with pda's consolidated financial statements.

Pda's results are reported in Canadian dollars whereas pda's business activities are reported in US dollars and therefore references in this discussion may be to transactions in either currency.

Results of Operations

Pda suffered a loss of $3,809,360 in 2003 compared to a gain of $361,982 in 2002.

Revenues increased 307% from $70,684 in 2002 to $217,213 in 2003. The increase in revenue was mainly a result of a full year's sales from the 10% interest in the Harimau field held by Pda (Lematang) Ltd compared to only a quarter's sales in 2002. There was additional revenue for the 5% interest in the Harimau field held by Indo-Thai (Lematang) Ltd until the 5%interest was sold on July 1, 2003.

Operating costs increased 183% from $15,325 in 2002 to $28,024 in 2003. This reflects the costs of the 5% interest in the Harimau field held by Indo Thai (Lematang) Ltd until it was sold. The costs of the 10% interest in the Harimau field held by pda (Lematang) Ltd were carried by PT Exspan (Lematang) Ltd.

Administrative expenses increased 385% from $949,469 in 2002 to $3,660,112 in 2003 mainly on account of the salary and office costs incurred by Asia Petroleum Development Ltd building its business base in South East Asia to capture oil and gas licenses.

Depletion, depreciation, and amortization of site restoration costs were $ 49,251 in 2003 compared with $ 47,176 in 2002. The slight increase is primarily due to the dissolution of pda LLC, pda Spain LLC and pda Asia LLC at the end of 2003.

There was a loss on disposal $383,202 for 2003 compared to a gain on disposal $5,595,034 for 2002. The loss for 2003 was due to the sale of the Indo Thai (Lematang) Ltd 5% interest in the Lematang PSC to Lundin Lematang B.V and PT Exspan Lematang Ltd. This is compared to the 2002 gain through the sale of pda (South Sumatra) Ltd to Medco International Ventures Ltd. The 2002 provision for impairment $4,736,359 related to the disposal of the 60% interest in the Lematang PSC there was no 2003 provision for impairment.

A recovery of income tax $150,581 is expected for 2003 compared to an income tax liability $8,750 for 2002. The recovery in 2003 is mainly due to a $159,661 tax credit against Capital Gains Tax paid by Pda (Lematang) Ltd in 2002

Liquidity and Capital Resources and Changes in Financial Condition

As at December 31, 2003, pda had a net working capital of $3,596,970 including a cash balance of $4,187,532.

In 2003, the Corporation's net PP&E expenditures were $9,010,128. This comprised an increase $8,993,124 in the petroleum and natural gas properties offset by small reductions in the net book value for computer equipment and fixtures & fittings. There was a 2003 investment $284,829 made in 6.9% of the common shares in Pacific Tiger Energy listed on the Canadian Venture Exchange. The reduction to $151,488 in long term accounts receivable from $227,233 in 2002 was the result of the disposal of the 5% interest in the Lematang PSC held by Indo Thai (Lematang) Ltd. Goodwill $309,100 was added $309,100 in 2003 from the purchase of pda LCC, pda Spain LLC, pda Asia LLC and APD Ltd on August 27, 2003.

In 2003 the Long Term Liabilities $2,670,460 increased 256% from $1,373,725 in 2002. There was a reduction in the long term accounts payable $75,745 and a reduction $60,780 in the asset retirement obligation for the Lematang PSC due to the 5% interest in the Lematang PSC being sold by Indo Thai (Lematang) Ltd. However these were offset by an increase in the Corporation's deferred income taxes $777,459.

During the year, the pda completed the merger of itself with Kyrgoil Holdings Corporation ("KGO") with final regulatory approvals being obtained on January 29, 2004. The merger constitutes a reverse take over of the corporation by pda. Under the terms of the merger agreement, KGO sold its 50% interest in Kyrgyz Petroleum Company ("KPC").and continue the business of the PDA group.

Business Risk and Uncertainties

PDA, like all 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.

Managements' Responsibility for Financial Reporting

To the shareholders:
Petroleum Development Associates (Oil & Gas) Limited

Management has responsibility for preparing the accompanying consolidated financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained.

It is the responsibility of the Board of Directors to review the financial statements in detail with management prior to their approval of the financial statements for publication.

External auditors are appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to the Board and management.

Director

Auditor's Report

To the shareholders:
Petroleum Development Associates (Oil & Gas) Limited

We have audited the consolidated balance sheet of Petroleum Development Associates (Oil & Gas) Limited as at December 31, 2003 and the consolidated statements of loss, Retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As explained in note 1, the Company has not presented a comparative cash flow statement for the year ended December 31, 2002 as required by Canadian generally accepted accounting principles. Management considers that the omission of this information will not affect the shareholders interpretation of the accounts.

In our opinion, except for not presenting the 2002 cash flow information, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Baker Tilly

Baker Tilly, Guildford
Chartered Accountants
United Kingdom

Consolidated Balance Sheet

As at December 31, 2003

		2003	2002
Assets			
Current			
Cash and cash equivalents		**4,187,532**	409,591
Accounts receivable	Note 4	**1,029,391**	432,325
		5,216,923	841,916
Property, plant and equipment	Note 5	**9,010,128**	1,605,926
Investments	Note 6	**284,829**	-
Long term accounts receivable	Note 7	**151,488**	227,233
Goodwill	Note 8	**309,100**	-
		14,972,468	2,675,075
Liabilities			
Current			
Accounts payable and accruals	Note 9	**1,619,953**	964,152
		1,619,953	964,152
Long term accounts payable	Note 7	**151,488**	227,233
Asset retirement obligation	Note 10	**121,560**	182,340
Future income taxes	Note 11	**777,459**	-
		2,670,460	1,373,725
Shareholders' Equity			
Share capital	Note 12	**13,000,002**	236,322
Special warrants	Note 13	**5,327,363**	-
Contributed surplus	Note 14	**98,555**	223,500
Retained earnings		**(6,123,912)**	841,528
		12,302,008	1,301,350
		14,972,468	2,675,075

Approved on behalf of the board

Director

Director

Consolidated Statement of Loss

As at December 31, 2003

		2003	2002
Revenue		**217,316**	70,684
Expenses			
Operating		**28,024**	15,325
Administrative		**3,660,112**	949,469
Depreciation, depletion and amortization		**49,251**	47,176
Interest, net		**(21,097)**	(8,757)
Foreign exchange (gain) loss		**77,765**	(44,586)
Provision for impairment		**-**	4,736,359
(Gain) loss on disposal		**383,202**	(5,995,034)
		4,177,257	(300,048)
Net (loss)/profit before tax		**(3,959,941)**	370,732
Income taxes			
Income tax expense (recovery)	Note 11	**(150,581)**	8,750
Net (loss)/profit from continuing operations		**(3,809,360)**	361,982
Net earnings from continuing operations			
Per common share	Note 15		
Basic		**(0.29)**	0.03
Diluted		**(0.28)**	0.03

Consolidated Statement of Retained Earnings (Deficit)

As at December 31, 2003

	2003	2002
Retained earnings, beginning of year	**841,528**	479,546
Net earnings	**(3,809,360)**	361,982
Excess of fair value of assets of controlling interest over net asset value	**(6,786,480)**	-
Capitalisation of reserves	**3,630,400**	-
Retained earnings, end of year	**(6,123,912)**	841,528

Consolidated Statement of Cash Flows

As at December 31, 2003

	2003
Operating activities	
Net earnings (loss) from continuing operations	**(3,809,360)**
Depreciation, depletion and amortization	**49,251**
(Gain) loss on disposal	**383,202**
Salaries in lieu, by way of issue of shares in lieu	**2,000,000**
Debenture received in lieu of interest	**(16,515)**
Cash flow from operating activities	**(1,393,422)**
Changes in working capital	
Accounts receivable	**(570,814)**
Accounts payable	**672,186**
	(1,292,050)
Investing activities	
Purchases of property, plant and equipment	**(2,089,194)**
Cash disposed of on sale of investment	**(30,915)**
Purchase of investment	**(143,462)**
	(2,263,571)
Financing activities	
Share issue cost	**(616,923)**
Proceeds on issue of warrants	**5,944,286**
Proceeds on issue of shares	**2,006,199**
	7,333,562
Increase in cash and cash equivalents	**3,777,941**
Cash and cash equivalents, beginning of year	**409,591**
Cash and cash equivalents, end of year	**4,187,532**
Disposal of Indo-Thai (Lematang) interest in PSC	
Net assets disposed of:	
Cash and cash equivalents	**30,915**
Property, plant and equipment	**455,704**
Long term accounts receivable	**75,745**
Accounts receivable	**40,810**
Accounts payable	**(16,385)**
Long term accounts payable	**(75,745)**
Asset retirement obligation	**(60,780)**
	450,264
Cash proceeds receivable	**67,062**
Loss on disposal	**383,202**

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2003

1. Incorporation and operations

Petroleum Development Associates (Oil & Gas) Limited ("the Company") was incorporated in the British Virgin Islands on June 30, 2003. 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.

Basis of presentation

The Company has consolidated the assets, liabilities, revenues and expenses of all subsidiaries after the elimination of inter-company transactions and balances. The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited, Petroleum Development Associates Iberica S.L., and Petroleum Development Associates (UK) Limited. The latter company changed its name to Serica Energy (UK) Limited on March 3, 2004.

On August 27, 2003 shares in Petroleum Development Associates LLC, Petroleum Development Associates (Asia) LLC, Petroleum Development Associates (Spain) LLC and Asia Petroleum Development Limited were exchanged for shares of the Company. The three LLC corporations were then dissolved and the Company assumed direct control of the subsidiaries as indicated above.

The business combination is accounted for in accordance with Emerging Issues Committee Guideline 89 of the Canadian Institute of Chartered Accountants. The proportionate share of the assets and liabilities of the controlling group of shareholders in the predecessor companies is recorded in the Company at carrying value. The proportionate share of the assets and liabilities of the non-controlling interest in the predecessor companies is recorded at its fair value. As a result, a fair value increment of $5,377,591 was recorded as follows: $5,042,194 allocated to petroleum and natural gas properties, $309,100 to goodwill and $26,297 to investments.

In accordance with Guideline 89, the consolidated balance sheets and statement of loss and retained earnings (deficit) are presented as if the companies had been combined since their inception. The statement of earnings for the year ended December 31, 2003 therefore includes the results of the LLC companies up to the date of the share exchange on August 27, 2003.

A comparative Cash Flow Statement has not been disclosed as this information is not available. The directors do not consider that the omission of this statement will affect the shareholders interpretation of the accounts.

2. Accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include the following significant accounting policies.

Reporting currency and foreign currency translation

The operations of the subsidiaries are of an integrated nature, and as such are translated into U.S. dollars as follows: monetary assets and liabilities are translated into their United States dollar equivalent at the exchange rate prevailing at the balance sheet date, non-monetary assets and liabilities are translated at the historical exchange rate in effect on the date of the occurrence and revenues and expenses are translated at the average exchange rate prevailing during the year. Translation exchange gains and losses are included in current year earnings.

In these financial statements, unless otherwise indicated, all dollar amounts are expressed in United States (U.S.) dollars.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less.

Investments

Investments are portfolio investments recorded at cost less any provisions for other than temporary impairment. They have been classified as long-term investments in concurrence with the nature of the investment.

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. 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. Proceeds from disposition of property sales are credited to the net book value of the property and equipment. Gains and losses are not recognised upon disposition of oil and gas properties other than equipment, unless the disposition would significantly alter the rate of depletion.

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.

Depreciation, depletion and amortization

Depreciation and depletion on resource assets are provided on the unit-of-production basis. Land and lease costs relating to producing properties and costs of gas plants are depleted and depreciated over remaining proved reserves. Resource development costs are depleted and depreciated over remaining proved developed reserves. A valuation allowance for unproved properties is provided through amortization of costs; the amortization rate is determined in accordance with experience.

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

The Company has adopted the Canadian Institute of Chartered Accountants' (CICA) new guidance for "Goodwill and Other Intangible Assets". The new standards require that goodwill no longer be amortized but instead be tested for impairment at least annually. Goodwill is recognized on the Company's balance sheet at the amount initially recognized, less any write-down for impairment.

Goodwill, representing the excess of purchase price over the fair market value of net tangible assets acquired, is recorded at cost, less any provision for permanent impairment. The Company assesses impairment based on the estimated undiscounted future cash flows from operations. Impairment of goodwill is measured by comparing its book value against the estimated undiscounted future cash flows, and any permanent impairment is included in current period earnings.

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 utilizes the asset and liability method for calculating its future income tax liability whereby it estimates its future tax liability based on the temporary differences between the carrying value of its assets and liabilities and the corresponding tax values. In addition, future tax benefits of income tax assets, including unused tax losses, are recognized, subject to a valuation allowance, to the extent that it is more likely than not that such future benefits will ultimately be realized. Future income tax liabilities and assets are calculated using income tax rates anticipated to be in effect in the years in which these differences are expected to 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.

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. Segmented information

The Company has defined its continuing operations into geographic segments of Indonesia, Spain and the United Kingdom. There are no discontinued operations.

	Indonesia	Spain	United Kingdom	Total
2003				
Revenue	217,316	-	-	**217,316**
Expense	(3,570,385)	(26,462)	(429,829)	**(4,026,676)**
Loss	(3,353,069)	(26,462)	(429,829)	**(3,809,360)**
Goodwill	2,318,258	(182,518)	(1,826,640)	**309,100**
Other assets	9,540,513	644,814	4,478,041	**14,663,368**
Total assets	11,858,771	462,296	2,651,401	**14,972,468**
2002				
Revenue	70,684	-	-	**70,684**
Expense	692,467	(123,713)	(277,456)	**291,298**
Profit/(loss)	763,151	(123,713)	(277,456)	**361,982**
Goodwill	-	-	-	**-**
Other assets	2,120,885	115,380	438,810	**2,675,075**
Total assets	2,120,885	115,380	438,810	**2,675,075**

The Indonesian expense figures for 2002 include a gain arising on the sale of an interest in a production sharing contract.

4. Accounts receivable

	2003	2002
Merger expenses prepaid	**356,985**	-
Tax refunds	**336,025**	157,651
Trade/Other	**336,381**	274,674
	1,029,391	432,325

5. Property, plant and equipment

			2003	2002
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Petroleum and natural gas properties	**9,223,801**	**230,677**	**8,993,124**	1,577,618
Computer equipment	**27,706**	**13,879**	**13,827**	23,576
Fixtures, fittings and equipment	**5,693**	**2,516**	**3,177**	4,732
	9,257,200	**247,072**	**9,010,128**	1,605,926

5. Property, plant and equipment (continued)

The Net Book Value of Petroleum and Natural Gas properties is allocated to the following cost pools:

	2003	2002
Indonesia	4,146,943	1,414,504
Spain	640,730	107,810
UK	4,205,451	55,304
Total	8,993,124	1,577,618

6. Investments

Included in investments is a 6.9% interest in the common shares and convertible debentures of a company listed on the Canadian Venture Exchange.

	Percent Ownership	**2003**	2002
Investment represents:			
Common shares			
Convertible debentures	6.9%	268,314	Nil
	1.7%	16,515	Nil
		284,829	Nil

The investment represents a company that carries on oil and gas exploration, development and production activities in Thailand. The convertible debentures were issued in the amount of $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.

7. Long term accounts receivable and accounts payable

Long term accounts receivable and accounts payable are non-secured and non-interest bearing. As these accounts will not be demanded within the next twelve months, they have been classified as non-current.

8. Goodwill

1 January 2003	-
Additions	309,100
31 December 2003	**309,100**

On 27 August 2003, the company purchased the following companies for a consideration of $13,000,002:

Petroleum Development Associates LLC, registered in Delaware
Petroleum Development Associates (Asia) LLC, registered in Delaware
Petroleum Development Associates (Spain) LLC, registered in Delaware
Asia Petroleum Developments Limited, registered in British Vigin Islands

8. Goodwill (continued)

Net assets as the date of acquisition were:	Book value	Adjustment	Fair value to group
Petroleum Development Associates LLC	323,617	2,898,558	3,222,175
Petroleum Development Associates (Asia) LLC	823,190	1,230,061	2,053,251
Petroleum Development Associates (Spain) LLC	93,415	442,075	535,490
Asia Petroleum Development Limited	(404,291)	497,797	93,506
Net assets	835,931	5,068,491	5,904,422

Consideration satisfied as follows:		
Issue of shares	13,000,002	
Shares issued to controlling interest (deemed to be at book value)	(6,786,480)	
		6,213,522
Goodwill arising on acquisition		**309,100**

9. Accounts payable and accruals

	2003	2002
Trade creditors and accrued liabilities	**1,609,273**	760,016
Taxes payable	**10,680**	204,136
	1,619,953	964,152

10. Asset retirement obligation

The Group is legally required to remove all drilling equipment, at the end of its useful life, from its Harimau well in Indonesia. It is also required to rectify any environmental damage caused.

The Group has accrued the following liability for an asset retirement obligation. A corresponding amount was capitalized as an asset retirement cost and added to the carrying value of Petroleum and natural gas properties but is now fully depreciated.

	Indo-Thai (Lematang) Limited	Petroleum Development Associates (Lematang) Limited	Total
Liability, January 1, 2002	-	121,560	**121,560**
Liabilities introduced during 2002	60,780	-	**60,780**
Liability, December 31, 2002	60,780	121,560	**182,340**
Liabilities settled during 2003	(60,780)	-	**(60,780)**
Liability, December 31, 2003	-	121,560	**121,560**

11. Income taxes

The components of the net future income tax liability are:

	2003	2002
Property, plant and equipment	**1,393,405**	-
Goodwill	**(615,946)**	-
Net future income tax liability	**777,459**	-

The company has non-capital tax losses of approximately $15,034,523. The benefit of these has not been recognised in these consolidated financial statements.

The income tax recovery differs from the amount that would be expected by applying the current tax rates for the following reasons:

	2003	2002
(Loss)/profit before taxes	**(3,959,941)**	370,732
Expected tax recovery at 40.0% (2002 – 40.0%)	**(1,583,976)**	148,293
Unrecognised benefit of future tax asset	**(23,717)**	(1,406,173)
Non-deductible expenses for tax	**1,049**	123,261
Chargeable disposal	**-**	1,054,707
Adjustments to previous period	**18,553**	(66,113)
Exchange difference	**17,227**	(9,174)
Rate difference	**51,255**	(15,804)
Losses not available for carry forward	**1,373,727**	214,218
Other tax adjustment	**(4,699)**	(34,465)
Income tax expense (recovery)	**(150,581)**	8,750

12. Share capital

Authorised capital

100,000,000 Ordinary shares of $1 each

	Shares	**Capital value**
Issued capital		
1 January 2002 and 31 December 2002	-	236,322
Shares eliminated on acquisition of LLC's	-	(236,322)
Shares issued on acquisition of LLC's	13,000,002	13,000,002
31 December 2003	13,000,002	13,000,002

13. Special Warrants

5,972,358 special warrants were issued during the year for a consideration of $5,327,363 (after deducting issue costs of $616,921).

Each special warrant is exercisable, for no additional consideration, into one unit of the company ("PDA unit").

A PDA unit comprises one common share of the company and one half of one common share purchase warrant of the company (each whole common share purchase warrant, a "Purchase Warrant") or one Purchase Warrant if the Purchaser waives its Put Right.

Each whole Purchase Warrant entitles the holder thereof to purchase at an exercise price of $Can 1.84 one common share in the company for a period of 12 months, following a flotation of the company or the successful completion of the merger of the Company with Kyrgoil Holding Corporation.

14. Contributed surplus

An amount of $98,555 which was due to directors of Asia Petroleum Development Limited was settled as part of the share issue on acquisition of LLC's during the year.

15. Per share amounts

Basic and detailed earnings per share is calculated using the weighted average number of shares outstanding during the year. As the Company was only incorporated to effect a business combination and the results of that amalgamation are reflected in these financial statements on an aggregated basis as if the acquired companies had been acquired at their inception for the purposes of this calculation the 13,000,002 shares of the Company issued to effect the business combination have been assumed to have been in issue throughout the periods.

The weighted average number of shares outstanding and the earnings per share amounts are calculated as follows:

	2003		**2002**	
	basic	**diluted**	**basic**	**diluted**
Common shares	13,000,002	13,000,002	13,000,002	13,000,002
Conversion of 5,972,358				
Special warrants as at 27 November 2003	-	556,329	-	-
	13,000,002	13,556,331	13,000,002	13,000,002
Earnings	(3,809,360)	(3,809,360)	361,982	361,982
Per share	(0.29)	(0.28)	0.03	0.03

16. Financial instruments

The carrying amount of term deposits, accounts receivable, bank overdraft, current bank loans, accounts payable and accrued liabilities approximates their fair value due to the short-term maturities of these items.

The fair value of the Company's long-term financial instruments is estimated using discounted cash flow analysis based on market borrowing rates of 5%. Based on these assumptions, the fair values as at 31 December of these long-term financial instruments are as follows:

	2003 Carrying amount	**Fair value**	2002 Carrying amount	Fair value
Long term accounts receivable	**151,488**	**129,882**	227,223	185,083
Long term accounts payable	**(151,488)**	**(129,882)**	(227,223)	(185,083)

Fair values are based on management's best estimates after consideration of current market conditions. The estimates are subjective and involve considerable judgement, and as such are not necessarily indicative of the amounts that the Company may incur in actual market transactions.

17. Foreign currency risk

The Company enters into transactions denominated in British sterling and Euros for which the related revenues, expenses, accounts receivable and accounts payable balances are subject to exchange rate fluctuations. Foreign denominated accounts receivable and accounts payable at year-end were as follows:

	2003 – US$	2002 – US$
Accounts receivable – Euros	**-**	338
Accounts receivable – Pounds sterling	**240,881**	242,865
Accounts payable – Euros	**(1,377)**	(607)
Accounts payable – Pounds sterling	**(464,850)**	(34,611)

18. Related party transactions

Asia Petro Services Pte Limited ("APS") was controlled by directors of PDA until 1 January 2004, when it became a group company.

APS provides office services for the group. The amount charged to the group during 2003 was $499,659 (2002: $35,021) and is included in administrative expenses.

At 31 December 2003 $6,302 (2002: $35,021) was due to APS.

19. Commitments

The Company has entered into various lease agreements with estimated minimum annual payments as follows:

	$
Year ending 31 December 2004	65,341
Year ending 31 December 2005	22,930
Year ending 31 December 2006	5,048
Year ending 31 December 2007	4,149
Year ending 31 December 2008	4,149

The above figures include commitments in respect of leased premises.

20. Subsequent event

On 29 January 2004 the merger of the Company with Kyrgoil Holding Corporation and the formation of the ongoing entity to be called Serica Energy Corporation, the details of which were included in the Joint Management Information circular issued on 21 November 2003, and approved at the Meetings of Shareholders held on 29 December 2003, was effected.

The Company entered into an agreement to purchase Asahan Oil Investments BV and Glagah Kambura Exploration BV, both of which are registered in the Netherlands for a consideration of US$1,505,543. The consideration will be satisfied by the issue of 1,004,950 shares of Serica Energy Corporation.

Corporate Information

Board of Directors

William G. Wilson, Chairman – Chairman, Dundee Precious Metals Inc.
Robert Franklin, Director – Chairman, Placer Dome Limited
Christopher Harrop, Director – Senior Vice-President & Director, Canaccord Capital Corporation
Amjad Bseisu, Director – President & Director of Petrofac Resources International, Ltd.
Christopher D. Atkinson, Director – Chief Operating Officer, Serica Energy Corp.
Christopher Rivett-Carnac, Director – President & Chief Executive Officer, Serica Energy Corp.

Officers

Christopher Atkinson, Chief Operating Officer
Christopher Rivett-Carnac, President & CEO

Management

Jonathan B. Wood, VP Administration and Investor Relations
Douglas W. Fenwick, Managing Director, UK
Graham M.H. Baker, Exploration Manager, UK
John Grant, General Manager, Indonesia
Michael L. Renolds, Exploration Consultant, Asia
Jacqueline Kilford, Group Administration Manager

Listing

Toronto Stock Exchange Venture (TSX V)
Symbol SQZ

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Ernst & Young, Toronto, Canada

Bankers

HSBC, Jersey

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Registrar & Transfer Agent

Equity Transfer

Website

www.serica-energy.com

Annual General Meeting

June 29, 2004, 10 a.m.
at The Canadian Room of the Ontario Club
5th Floor Commerce Court South
30 Wellington Street West
Toronto, Ontario

Serica
energy