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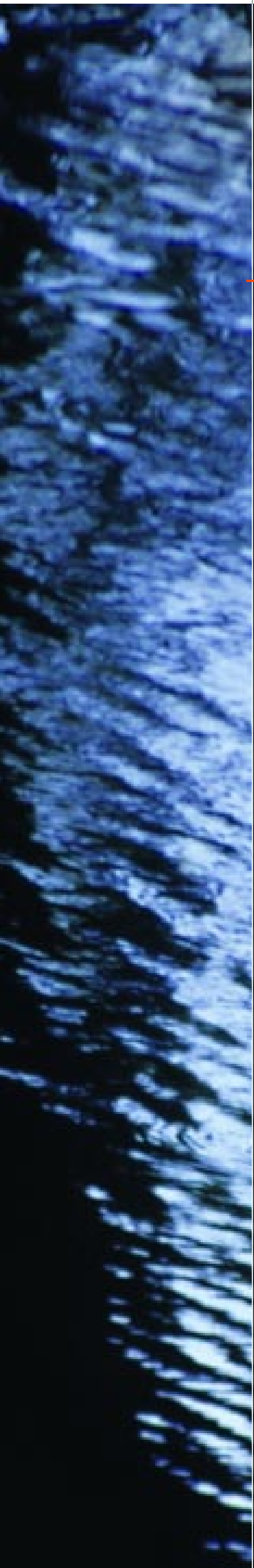
SERICA ENERGY

Serica Energy plc is an international oil and gas exploration company with operations in Indonesia, the UK North Sea and Spain. The Company's shares are listed on AIM in London and on the Canadian TSX Venture Exchange under the symbol SQZ.



Highlights

Operational

- Two operated wells completed in Indonesia were gas discoveries. The Kambuna-2 well tested at good flow rates, demonstrating commercial potential and highlighting further upside of the block. The Togar-1A well encountered high quality gas-bearing sands
- Awarded two new North Sea exploration blocks, Block 14/15a and Block 23/16f, in the UK 23rd Licensing Round
- Appointment of Paul Ellis as Chief Executive Officer

Financial

- Completed listing on AIM in December 2005 and raised £64 million, through JPMorgan Cazenove
- Serica has adopted International Financial Reporting Standards for its 2005 results (previously Canadian GAAP)

Forward Programme

- Kambuna Field Plan of Development submitted to the Indonesian authorities targeting first production in 2008, with discussions ongoing with third parties regarding gas sales agreements
- Plan of Development for Tanjung Perling Field to be submitted during first half 2006
- Drilling rigs have been identified for wells to be drilled in the UK and Indonesia. The first well on North Sea Block 23/16f to be spudded in Q3 2006. Concluding arrangements for a rig to commence the Indonesian drilling programme
- A large 3D seismic programme covering parts of both the Glagah Kambuna and Asahan blocks is contracted to commence in Q3 2006

Tony Craven Walker
Chairman

Joining Serica in August 2004, Tony has been a leading figure in the British independent oil industry for nearly 40 years. He founded two companies, Charterhouse Petroleum and Monument Oil and Gas, and was a key member of BRINDEX, the official voice of British independent oil and gas exploration companies.

He started his career at BP in the mid 1960s, working in the Middle East, North America and the UK, playing a major role in the development of the North Sea Forties Field.

CHAIRMAN'S STATEMENT

I am delighted to report that Serica has started 2006 in a strong operational and financial position. With the successful raising of £64 million of new capital and the listing of the Company's shares in London on AIM, to complement our existing quotation on the TSX Venture Exchange market in Canada, the Company is now well placed to create shareholder value through its ambitious exploration drilling and field development programmes. I should like to thank shareholders for their support during the recent funding and to welcome new shareholders who joined us at the time of the AIM listing.

During the year we strengthened the management team with the appointment of Paul Ellis as Chief Executive Officer who will work closely with Chris Atkinson, the Chief Operating Officer and Chris Hearne, the Finance Director. Paul has over 35 years experience in the areas of exploration, production, development and management of international oil and gas ventures. He has held senior appointments with major upstream oil and gas companies and with independent exploration companies.

We made good progress in Indonesia, where we achieved exploration success, and in the UK. In Indonesia, the successful outcome of our 2005 drilling programme has demonstrated both the commercial potential of the Kambuna Field and the significant gas prospectivity of the adjacent Asahan Block. The Company has already submitted plans for the development of Kambuna to the Indonesian authorities, with production scheduled for 2008, and is in discussions with third parties interested in purchasing the gas. In addition, new seismic information has indicated that the Tanjung Perling Field, in the south of the Asahan Block, may be commercial and a development plan is also being prepared for this field.

We start these new developments, and our exploration drilling and seismic programmes, at a time of high oil and gas prices but also at a time of high rig activity. This increased rig demand worldwide has led to a very tight drilling market.

Nevertheless, in this competitive market the Company has secured a rig for its first well in North Sea Block 23/16f, to be spudded in the fourth quarter this year. In Indonesia the company is concluding arrangements for a rig for its 2006/7 drilling programme in the Biliton Block. We continue to review options to bring forward exploration drilling on our other blocks but we are cautious to avoid incurring excessive drilling costs in the current overly tight market.

In summary, 2005 was an eventful year for the Company with a positive outcome. We have seen successes in Indonesia with our first two wells drilled as operator and have secured the funding required to build on these early successes. I am immensely pleased with these achievements and optimistic for the future.

Tony Craven Walker
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

I am pleased to present this as my first report since joining the Company last September.

It is two years now since Serica was formed and listed on the TSX Venture Exchange and, in that time, the Company has made significant progress. From Serica's small starting position at the end of 2003 the Company's portfolio has grown to include a broad spread of interests in the North Sea and Indonesia, its two main areas of focus. Both these areas provide the basis for future growth. An independent study commissioned by the Company at the time of its introduction to AIM identified 22 exploration prospects in the Company's portfolio which could be potentially commercial.

This is a considerable portfolio for a Company of Serica's size to have accumulated in such a short space of time. Its interests in the North Sea and Indonesia cover the technical risk spectrum, giving exposure both to lower risk appraisal projects and to higher risk, high impact projects whilst also providing a balance of geological and political risk. It is an enviable portfolio for a small company to have.

The first two wells drilled by the Company on its Asahan and Glagah Kambuna blocks in Indonesia at the end of 2005 reflect the quality of the Company's acreage. Serica is operator with a 55% interest in both of these blocks. The first well, Kambuna-2, tested gas at good flow rates and has demonstrated the commercial potential of the Kambuna Field as well as indicating further considerable upside to that field. The second well, Togar-1A, a wildcat exploration well drilled to test a direct hydrocarbon indicator on the adjacent Asahan Block, encountered high quality gas-bearing sands in line with our expectations and proves the Company's technology, increasing significantly our optimism for commercial discoveries to be made on the block.

Following these positive results and the successful funding, the Company submitted a Plan of Development for the Kambuna Field to the Indonesian authorities at the turn of the year with a targeted production date of 2008. Discussions have already commenced with third parties who have expressed interest in acquiring the gas. A 3D seismic survey over the Kambuna Field and adjacent company acreage will be acquired later this year. More recently, the analysis of new seismic data acquired by the Company has shown that the Tanjung Perling gas accumulation, which lies to the south of Kambuna in our adjacent Asahan Block, has commercial potential. We are therefore preparing a Plan of Development for the Tanjung Perling Field to be submitted to the Indonesian authorities this year.

During 2005 further prospects were added to the Company's inventory with the award of two North Sea licences in the UK 23rd Licensing Round, Block 14/15a and Block 23/16f, both operated by Serica which has an interest of 50% in each block. Serica now has an interest in eight blocks and part blocks in the North Sea, all of which it operates. Notwithstanding a tight rig market, the Company has put arrangements in place to drill an exploration well in Block 23/16f in the fourth quarter 2006, less than a year from the award of the licence.

Paul Ellis
Chief Executive Officer

With 35 years of experience to call on, Paul has held technical and financial responsibility for upstream oil and gas projects and ventures in over 20 countries around the world. He joined Serica from Emerald Energy plc where he was instrumental in the successful development of the company's exploration and production interests.

Starting his career at BP as a petroleum reservoir engineer, Paul has held senior and executive positions in a number of public companies including Charterhouse Petroleum, British Gas, PanCanadian Petroleum and Emerald Energy.

CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

The sharp increase in exploration drilling activity worldwide caused by high oil and gas prices has resulted in offshore drilling rigs becoming harder to obtain and rig owners are seeking long term contracts at very high day rates. Serica is adapting to these changed circumstances and will be entering into rig-sharing agreements with other operators and favouring farm-in partners who have rigs under contract.

In addition to the semi-submersible rig secured for the drilling of the first exploration well in UK Block 23/16f, the Company is finalising arrangements for a rig for its 2006/7 Indonesian drilling programme in the Biliton Block. We continue to explore avenues to identify rig slots to bring forward drilling on our other prospects. A large 3D seismic programme covering parts of both the Glagah Kambuna and Asahan blocks is planned to take place in mid year before selecting the drilling locations in those blocks.

One of the factors that differentiates Serica from other small exploration companies is that Serica operates all but one of its licence blocks and has working interests of between 50% and 100% in all but one block. This gives Serica financial and operational flexibility and allows Serica, in the event of farming-out, to retain a significant interest and exposure to the potential upside.

Serica's strategy is the creation of significant shareholder value through high impact exploration and near term development. To achieve this goal, the Company aims to maintain a portfolio of prospects that will provide opportunities each year for drilling low risk appraisal wells together with higher risk, high impact wells. To this end the Company will make applications for exploration licences in existing and new areas of interest and will seek to undertake new ventures such as farm-ins, acreage trades and corporate transactions, focusing on those opportunities which have the potential to add significant value. Our focus for this year is to progress our current exploration and development programmes whilst being open to new opportunities to create value for shareholders.

Paul Ellis

Paul Ellis
Chief Executive Officer

Chris Atkinson
Chief Operating Officer

Chris is one of the founders of Serica and has over 20 years experience in the international oil and gas industry. Significantly, he has a strong track record of involvement in the acquisition of high quality exploration acreage on which discoveries are made.

Starting his career at Shell, Chris worked in the Far East, Africa, Europe and the UK for ARCO in a variety of senior positions before leaving in 2000 to found Serica.

REVIEW OF OPERATIONS – OVERVIEW

Serica has operations in three different areas of the world. Two of these areas, Indonesia and the UK North Sea, are major oil and gas producing regions and the third, onshore northern Spain, is an area that has yet to be fully explored using modern exploration techniques.

The Company achieved success in 2005 with new acreage awarded in the North Sea and two gas discovery wells in Indonesia: Kambuna-2 and Togar-1A. The Company is currently studying the development of two offshore gas fields, the Kambuna Field in the Glagah Kambuna Technical Assistance Contract (TAC) and the Tanjung Perling Field in the adjacent Asahan Production Sharing Contract (PSC), and has commenced gas sales negotiations for both fields, in which it holds interests of 55% and is the operator.

Indonesia

During 2005 the Company mobilised a drilling rig to drill two wells offshore Sumatra. Kambuna-2 was drilled in September in the Glagah Kambuna TAC and Togar-1A was drilled in the Asahan Offshore PSC in October. Kambuna-2 demonstrated the commercial potential of the Kambuna Field and a Plan of Development to supply gas to onshore Sumatra starting in 2008 was submitted to Pertamina in December. Gas sales negotiations have now been initiated for gas from the Kambuna Field.

The Togar-1A well discovered gas but not in sufficient quantities to justify a stand-alone development. However, it may be possible to produce the Togar Field as a satellite to other potential field developments. A new 2D seismic survey was completed in the Asahan Offshore PSC and locations for future exploration wells are being established.

In the Biliton PSC further 2D seismic data was acquired and a basin modelling study was completed to examine the likely flow of hydrocarbons from the source rocks to the mapped prospects on the block. Drilling locations are being determined and a three-well exploration programme is now being planned.

United Kingdom

Serica has been actively involved in the North Sea for five years and continued to improve its portfolio of interests with the award of two Central North Sea licences in the UK 23rd Licensing Round: Block 23/16f and Block 14/15a. The Company is already preparing to drill a well in Block 23/16f to test 'Magellan', a prospect on which drilling is expected to commence in the fourth quarter of 2006.

During the year considerable efforts were made in the technical evaluation of our blocks in the Southern Gas Basin and we are now making preparations for the drilling of the Oak gas prospect in 54/1b and the Chablis appraisal well in Block 48/16b, both operated by Serica.

Spain

The Company holds a 100% interest in four exploration permits covering approximately 1,116 square kilometres onshore northern Spain. The permits are located within the Autonomous Community of Aragon and lie approximately 60 kilometres southeast of the existing Serrablo Gas Field.

Geological evaluation of the permits has confirmed a functioning petroleum system and a series of exploration leads has been mapped. It has further been determined that additional 2D seismic data will need to be acquired in 2007 to convert these leads into prospects for drilling.

REVIEW OF OPERATIONS – INDONESIA

Serica's principal oil and gas interests and activities in Indonesia

Serica has been active in Indonesia for four years and has interests in three PSCs and one TAC. The portfolio has been assembled through acquisition and direct negotiation and the Company continues to seek further exploration opportunities in this highly prospective country.

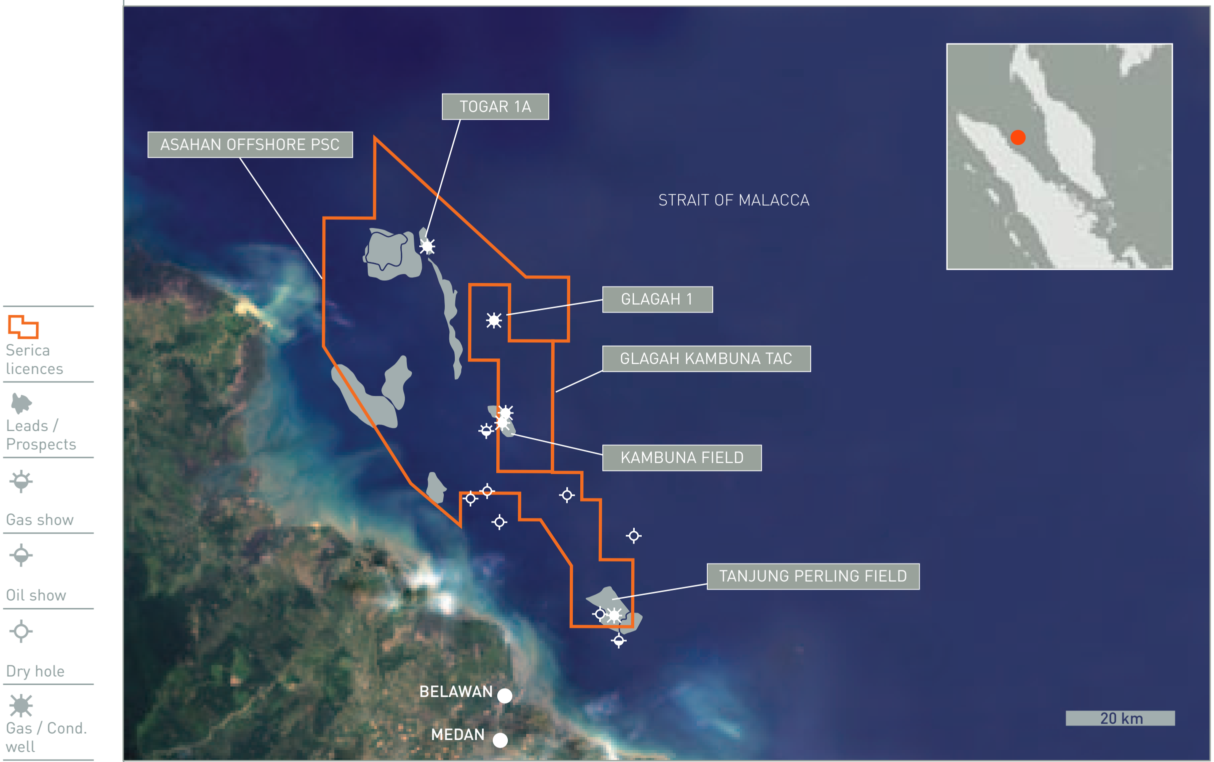
During 2005, Serica contracted the semi-submersible drilling rig 'Galaxy Driller' to drill two wells: the Kambuna-2 appraisal well in the Glagah Kambuna TAC and the Togar-1A exploration well in the Asahan Offshore PSC. Both wells successfully encountered gas-bearing reservoirs.

The Company also acquired 2D seismic data in the Asahan Offshore and Biliton PSCs and is now finalising the interpretation of both areas and selecting drilling locations.

The following table summarises the Company's interests in Indonesia.

Contract	Working interest	Role	Location
Asahan Offshore PSC	55%	Operator	Offshore north Sumatra
Glagah Kambuna TAC	55%	Operator	Offshore north Sumatra
Biliton PSC	90%	Operator	Offshore Java Sea
Lematang PSC	10%	Partner	Onshore south Sumatra

Asahan Offshore PSC and Glagah Kambuna TAC



Asahan Offshore PSC

The Asahan Offshore PSC comprises an area of approximately 2,185 square kilometres offshore north Sumatra and lies immediately adjacent to the Glagah Kambuna TAC. Serica has a 55% working interest and is the operator of the PSC.

The Asahan Offshore PSC contains the Tanjung Perling and Togar discovery wells. The Tanjung Perling Field, approximately 20 kilometres offshore, was discovered by Pertamina and Japex in 1974 but was uncommercial at that time. New seismic data was acquired by Serica in 2004 and 2005 that confirmed the extent of the accumulation and Serica plans in 2006 to submit a Plan of Development for the Tanjung Perling Field to BPMIGAS, the Indonesian government agency for upstream oil and gas business.

The Company recently executed a Memorandum of Understanding with PGN relating to the delivery of gas from the Tanjung Perling Field starting in 2008.

The Togar-1A well, drilled in October 2005, was the Company's second operated well and was a small gas discovery. The well successfully confirmed the use of seismic direct hydrocarbon indicators as an effective exploration tool in the Asahan Offshore PSC, which contains a number of other prospects that are currently being evaluated for exploratory drilling. Togar itself may be exploited via a future larger development on the block.

The Asahan Offshore PSC is in relatively shallow water, around 50 metres, and the ultimate development of its gas fields will take advantage of readily available conventional technology.

Glagah Kambuna TAC

The Glagah Kambuna TAC comprises an area of approximately 380 square kilometres and lies offshore north Sumatra immediately adjacent to the Asahan Offshore PSC. Serica has a 55% working interest and is the operator of the block.

Prior to 2005, the Glagah Kambuna TAC contained two discovery wells: the Glagah-1 well drilled by Caltex in 1985 and the Kambuna-1 well drilled by Bow Valley in 1986. In September 2005, Serica drilled its first operated well, the Kambuna-2 appraisal well. The well was drilled to a depth of 7,963 ft and tested gas at 17.5 mmscfd and over 1,500 bpd of 55° API gravity condensate. This well demonstrated the commercial potential of the Kambuna Field and the Company has submitted a Plan of Development to Pertamina, the Indonesian State petroleum company.

As part of this development plan the Company has contracted Veritas DGC to acquire a 3D seismic survey of up to 470 square kilometres commencing in mid-2006. The survey will cover not only the Kambuna Field but also a large area covering additional prospects lying both in the Glagah Kambuna TAC and in the Asahan Offshore PSC. Following the interpretation of the new data and selection of well locations, drilling will take place in 2007.

Field development, in 50 metres of water, will be straightforward and potential markets for Kambuna gas include the PLN power plant at Belawan and the city of Medan, one of Indonesia's largest cities. Serica is in negotiations with Pertamina and PT Perusahaan Gas Negara (PGN), the Indonesian state-owned gas company with respect to a gas sales agreement for the Kambuna Field, with production expected to commence in 2008.

The Kambuna story

In 1986, Bow Valley drilled Kambuna-1 hoping to find oil. The well was a gas-condensate discovery and, since at that time there was no local market for the gas, the discovery was abandoned. An earlier oil and gas-condensate discovery well at Glagah-1, drilled by Caltex to the north of Kambuna, had also been abandoned.

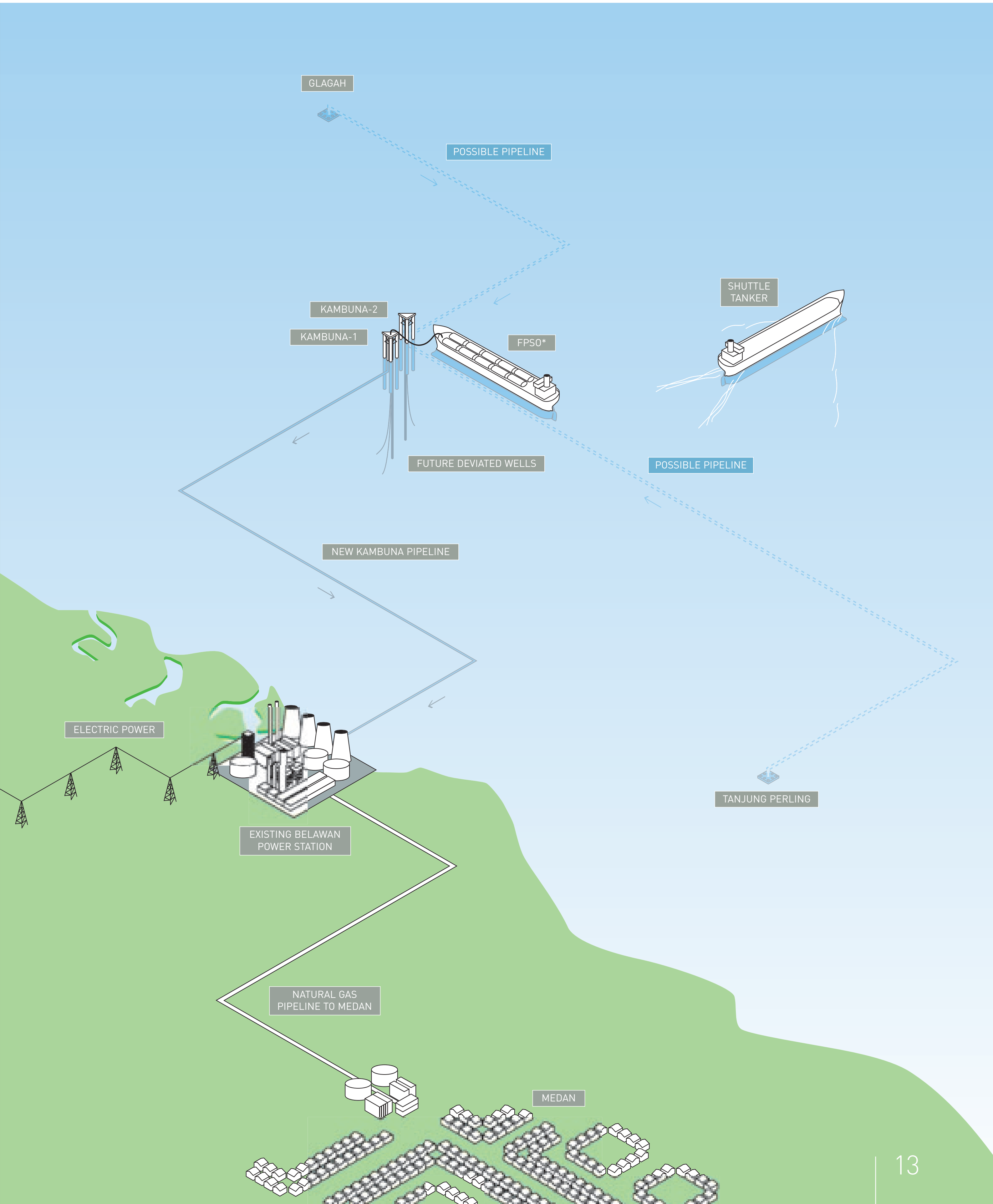
Ten years later an Indonesian company was awarded a Technical Assistance Contract (TAC) by Pertamina covering the Glagah Kambuna area. The company farmed out a 90% interest to an Australian company, Matrix Oil, which drilled West Kambuna-1 but then ran into financial difficulties and was put into administration.

A Serica Group company, Asia Petroleum Development, then purchased part of the Matrix interest from the administrator and Serica became the operator of the TAC, which lies about 40 kilometres offshore north Sumatra.

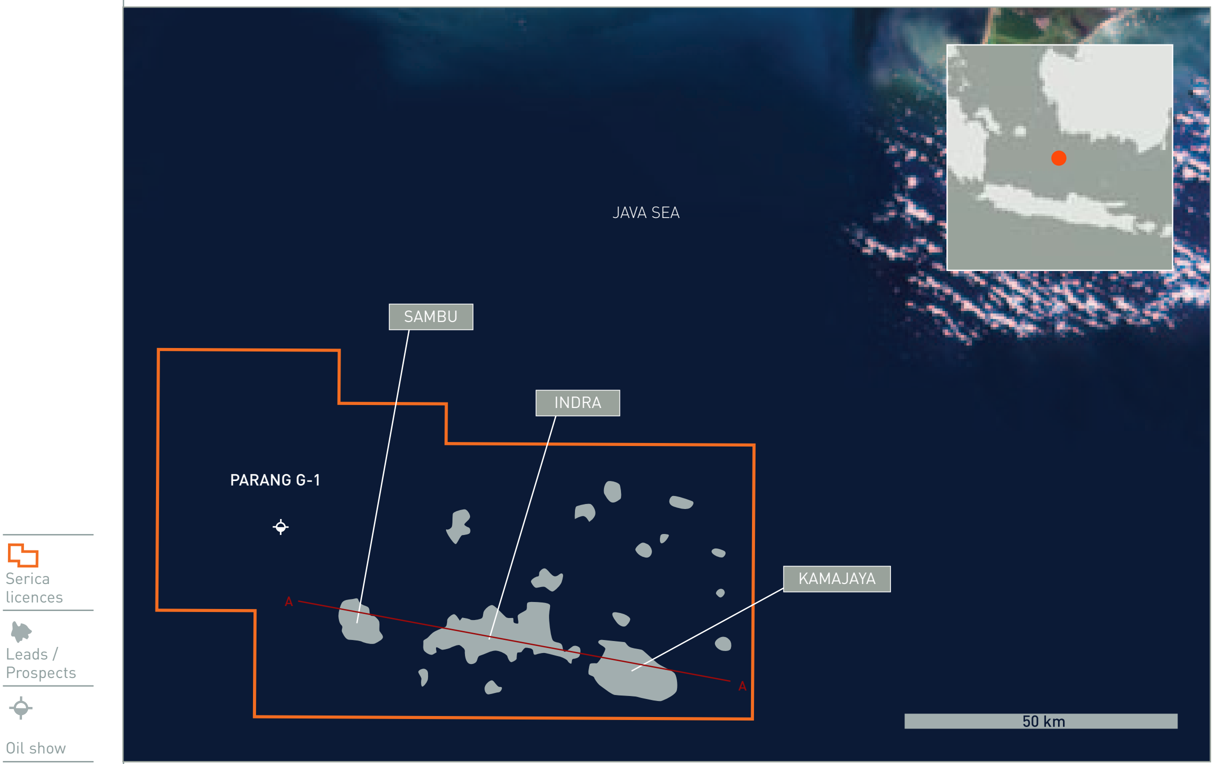
Serica drilled the Kambuna-2 appraisal well in 2005 and tested the well at commercial rates of gas and condensate.

In the 20 years since the Kambuna-1 discovery was made, a significant gas market has developed in the nearby onshore area around the city of Medan and Serica has already submitted a Plan of Development to Pertamina that includes a 3D seismic survey in 2006 and would see gas production from the field in 2008. Serica has a 55% interest in the development.

*Floating Production, Storage and Offtake vessel.


GLAGAH
POSSIBLE PIPELINE
SHUTTLE
TANKER
KAMBUNA-2
KAMBUNA-1
FPSO*
FUTURE DEVIATED WELLS
POSSIBLE PIPELINE
NEW KAMBUNA PIPELINE
ELECTRIC POWER
TANJUNG PERLING
EXISTING BELAWAN
POWER STATION
NATURAL GAS
PIPELINE TO MEDAN
MEDAN

Biliton PSC



Biliton PSC

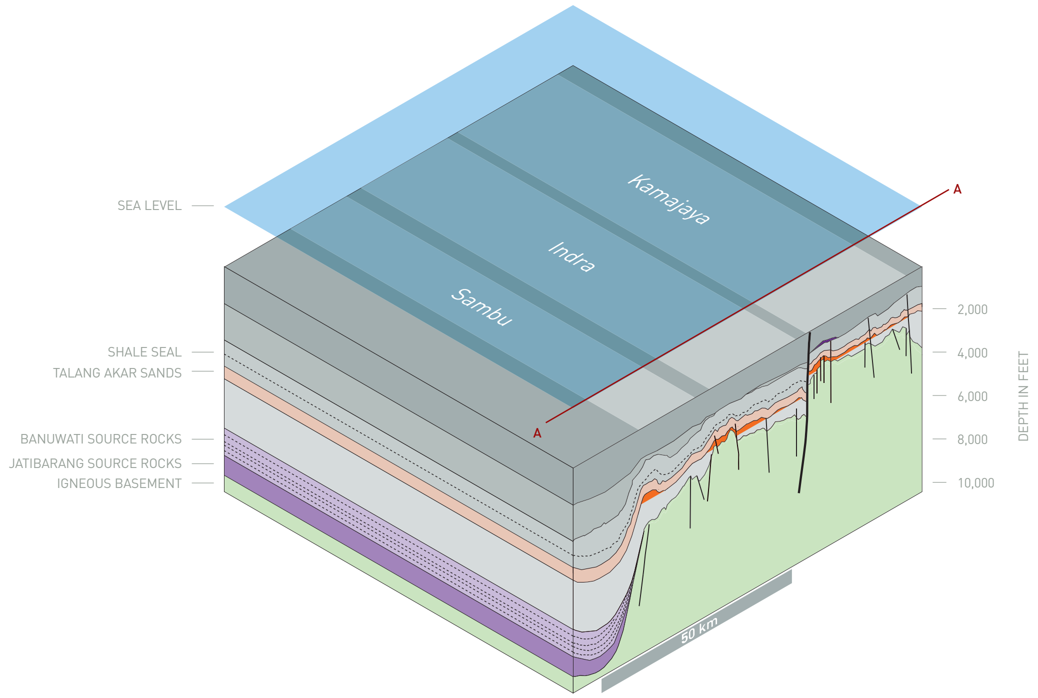
The Biliton PSC covers an area of approximately 6,575 square kilometres in the Java Sea between the Indonesian islands of Java and Kalimantan. The Company has a 90% working interest in Biliton and is the operator of the PSC.

The Biliton PSC lies in a virtually unexplored Indonesian basin which has many of the characteristics of analogous basins nearby which have to date produced substantial volumes of oil and gas. Only one exploration well has been drilled in the area, the Parang-G1 well drilled by Ashland Petroleum in 1974. Although this well did not find reserves of oil or gas it did encounter oil shows. In 1990, British Petroleum carried out a seabed survey that showed the presence of nine potential oil seeps within the current block boundary.

Both the shows in the well and seep information demonstrate that hydrocarbons have been generated within the area.

During 2004 and 2005, Serica acquired approximately 4,500 line kilometres of 2D seismic data which is currently being interpreted. It is expected that up to three prospects will be selected for an exploration drilling programme in 2006/7. These wells will test independent features with relatively shallow target drilling depths and are expected to be drilled in a three well back-to-back campaign.

Biliton - Geophysical projection



Lematang PSC

The Lematang PSC, onshore south Sumatra, covers an area of approximately 407 square kilometres, divided into two separate blocks. It lies within the prolific South Palembang Basin where oil and gas were first discovered in the late 19th century. Serica has a 10% working interest in the Lematang PSC, which is operated by PT Medco E&P Lematang (Medco).

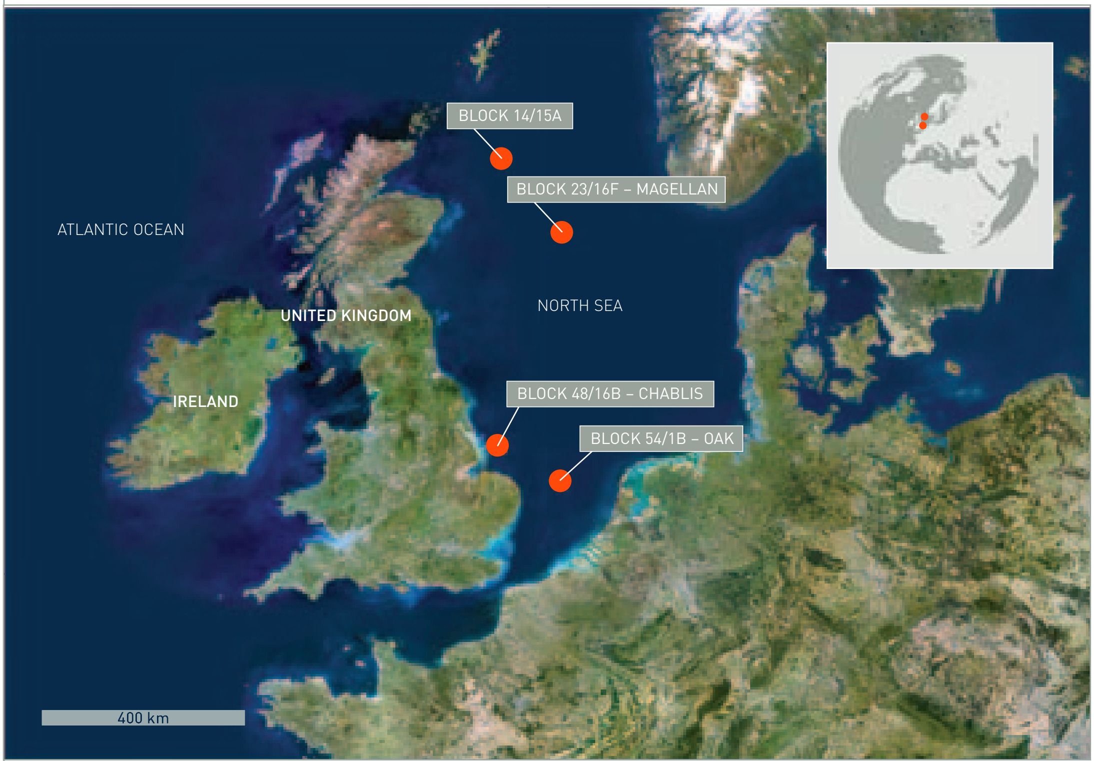
Several exploration wells were drilled between 1987 and 1997, resulting in the discovery of two gas fields, Harimau and Singa. The Harimau Field has been producing since 1991 and is now approaching the end of its life.

In 2004, PT Medco E&P Lematang submitted a Plan of Development for the Singa Field to BPMIGAS. The Plan of Development includes a 40 kilometre pipeline to Pagar Dewa, the starting point for the South Sumatra to West Java gas pipeline project being undertaken by PGN.

Serica's share of operating and development costs under the Lematang PSC is currently being carried by other partners and it is expected that the Company's cost carry will be sufficient to cover all costs of the development of the Singa Field in 2006 but that an additional US$6.5 million will be required by the Company to fund its share of development costs in 2007.

REVIEW OF OPERATIONS – UNITED KINGDOM

Serica's principal oil and gas interests and activities in the United Kingdom



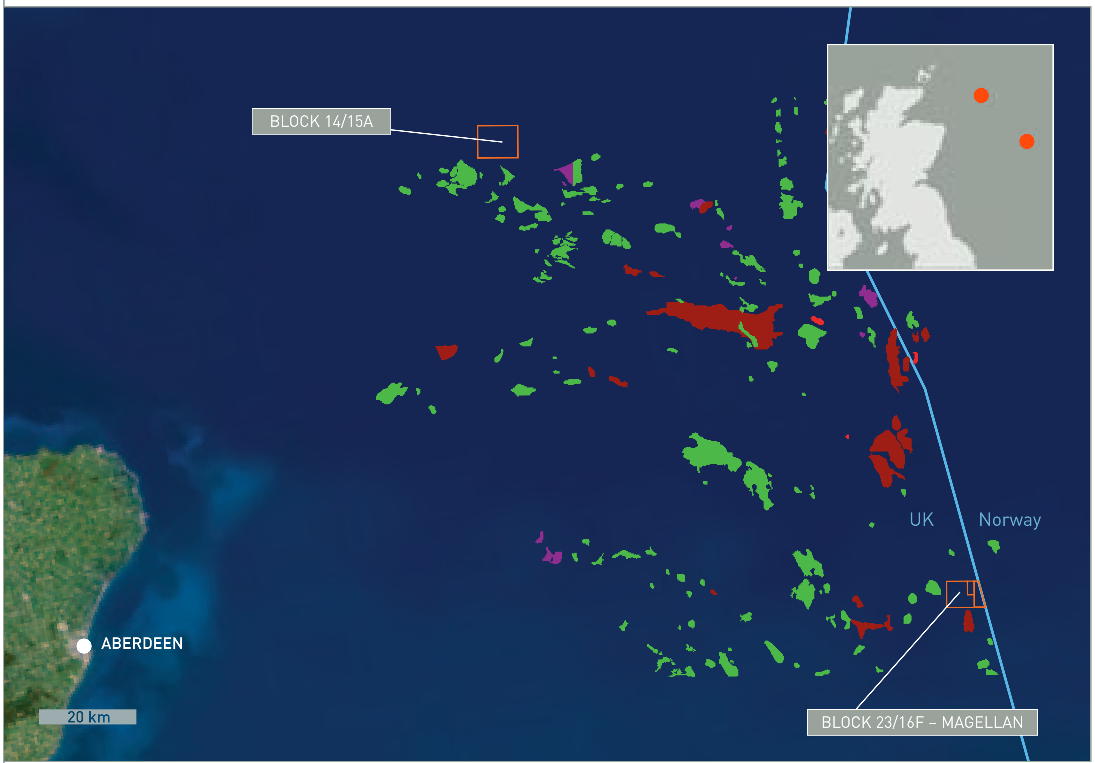
Serica interests

Serica has been active in the North Sea for over five years and has assembled, through its participation in the UK 22nd and 23rd Licensing Rounds as well as through acquisitions, a portfolio of eight blocks in the North Sea's Southern Gas Basin and Central Graben. All of the properties held by the Company, whether in the Southern Gas Basin or Central North Sea, are within 15 kilometres of existing infrastructure that could potentially transport any discovered hydrocarbons to shore and to the European market.

The following table summarises the Company's interests in the North Sea.

Block(s)	Working interest	Role	Location
Block 14/15a	50%	Operator	Central North Sea
Blocks 23/16e, 23/17b	50%	Operator	Central North Sea
Block 23/16f	50%	Operator	Central North Sea
Block 54/1b	100%	Operator	Southern Gas Basin
Block 48/16b	100%	Operator	Southern Gas Basin
Blocks 48/16a, 47/20b	100%	Operator	Southern Gas Basin

Block 14/15a and Block 23/16f, Central North Sea



Gas cond.

Oil field

Gas field

Serica licences

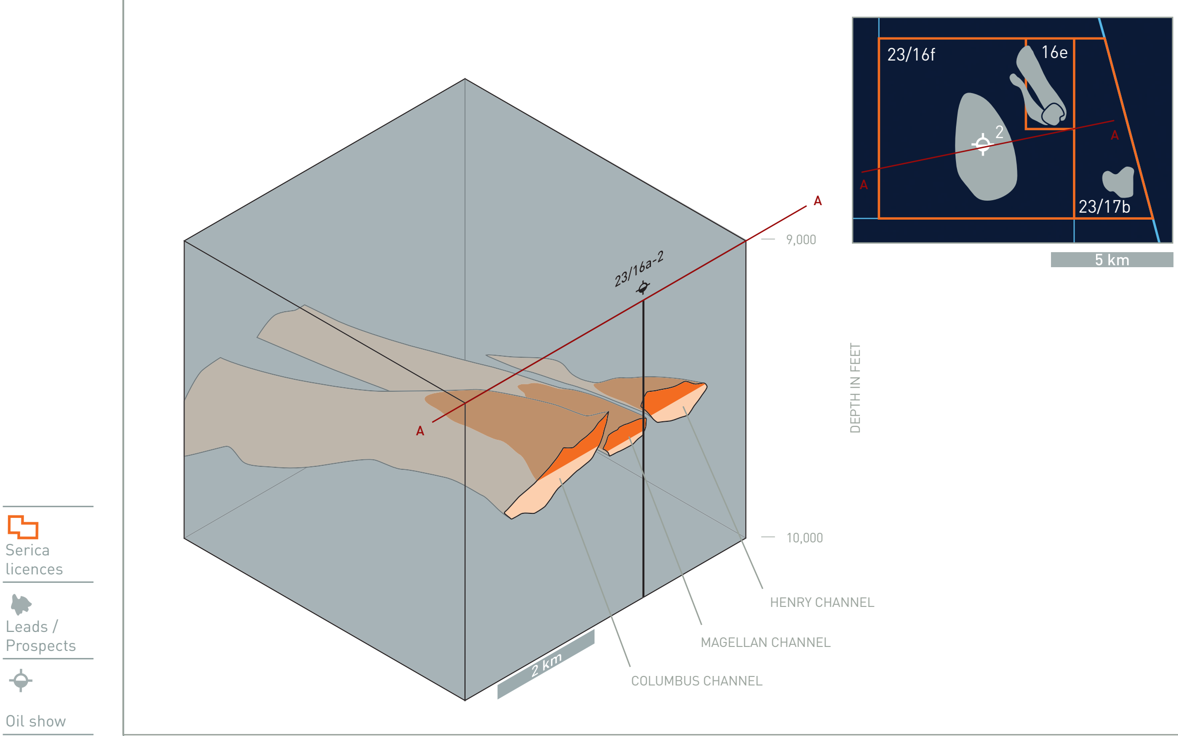
Block 14/15a

Block 14/15a covers 108 square kilometres in the Central North Sea. Serica is operator and has a 50% interest in the block. Serica and its partner, Paladin Expro Limited (now part of Talisman Energy Inc), were awarded the block in 2005 in the UK 23rd Licensing Round.

Block 14/15a lies in the Outer Moray Firth area of the Central North Sea, immediately north of the established Piper, Claymore, Tartan, Highlander and Lowlander oil fields. The current 3D seismic data has been used to identify several leads on the block and, in order to refine the interpretation, Serica will undertake a seismic reprocessing project involving pre-stack depth migration of the existing 3D data.

Leads have been defined at upper Jurassic, lower Cretaceous and Paleocene levels and the reprocessing project aims to mature some of the leads into drillable prospects.

Block 23/16f – Paleocene prospects



Blocks 23/16e, 23/17b and Block 23/16f

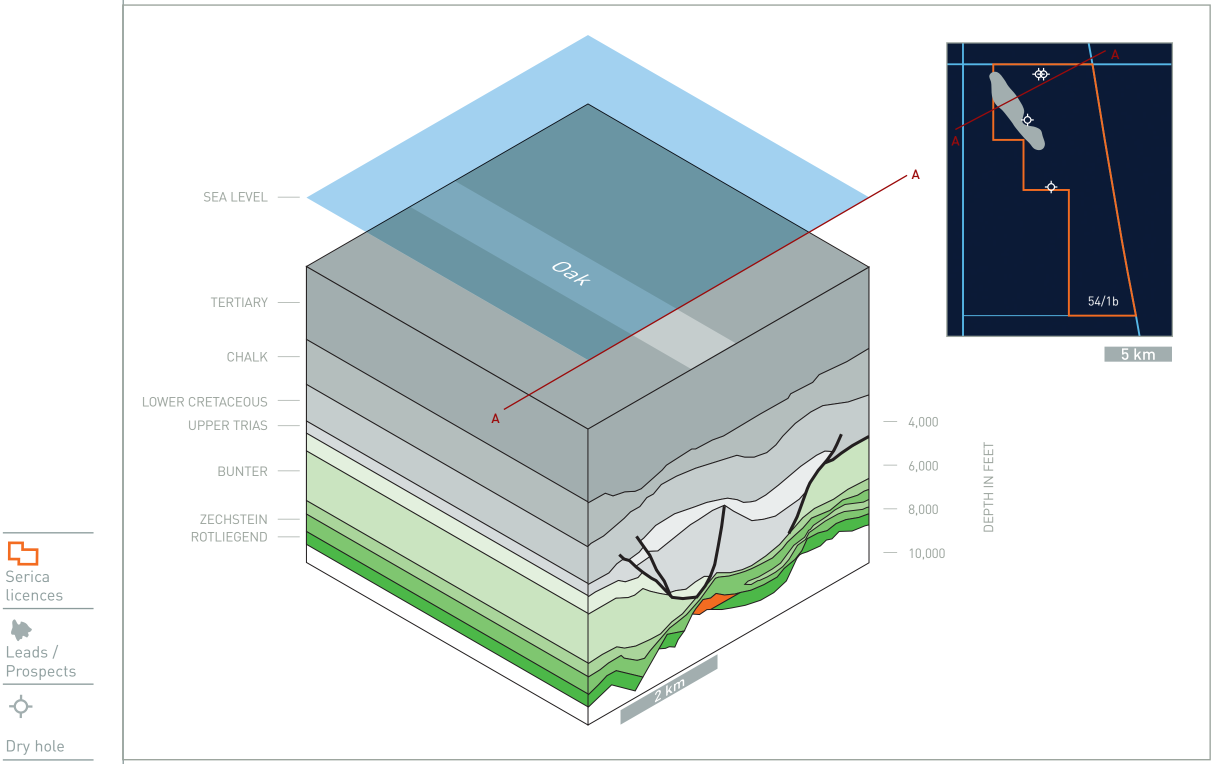
Blocks 23/16e, 23/17b and Block 23/16f are contiguous and cover 76 square kilometres in the Central Graben area of the North Sea. Serica is operator and has 50% interests in Blocks 23/16e and 23/17b, which Serica and its partners, Endeavour Energy and Wham Energy, were awarded in the UK 22nd Licensing Round. Serica is also operator and has a 50% interest in Block 23/16f, which it and its partner, Endeavour Energy, were awarded in the UK 23rd Licensing Round.

An exploration well, 23/16a-2, drilled by Britoil in 1988 and lying in the area now covered by Block 23/16f, produced light crude oil on test at a rate of 96 bpd from Tertiary sands of the Forties and Andrew formations. This discovery is now called 'Henry' and the most likely reason for poor flow in the Henry discovery well is believed to be formation damage and the reservoir quality in the vicinity of the well.

In areas of the block outside the 23/16a-2 well location, there are character changes on the seismic data that can be inferred to indicate the presence of thicker channel sands with improved reservoir characteristics. Serica has mapped the Henry discovery and the Columbus prospect in the Forties Sandstone and a prospect called Magellan in the underlying Andrew Sandstone. A deeper lead, Shackleton, has also been identified in the Lower Cretaceous.

Serica has secured a drilling rig to drill a well in Block 23/16f in the fourth quarter of 2006 to test the Magellan prospect.

Block 54/1b – Oak, geophysical projection



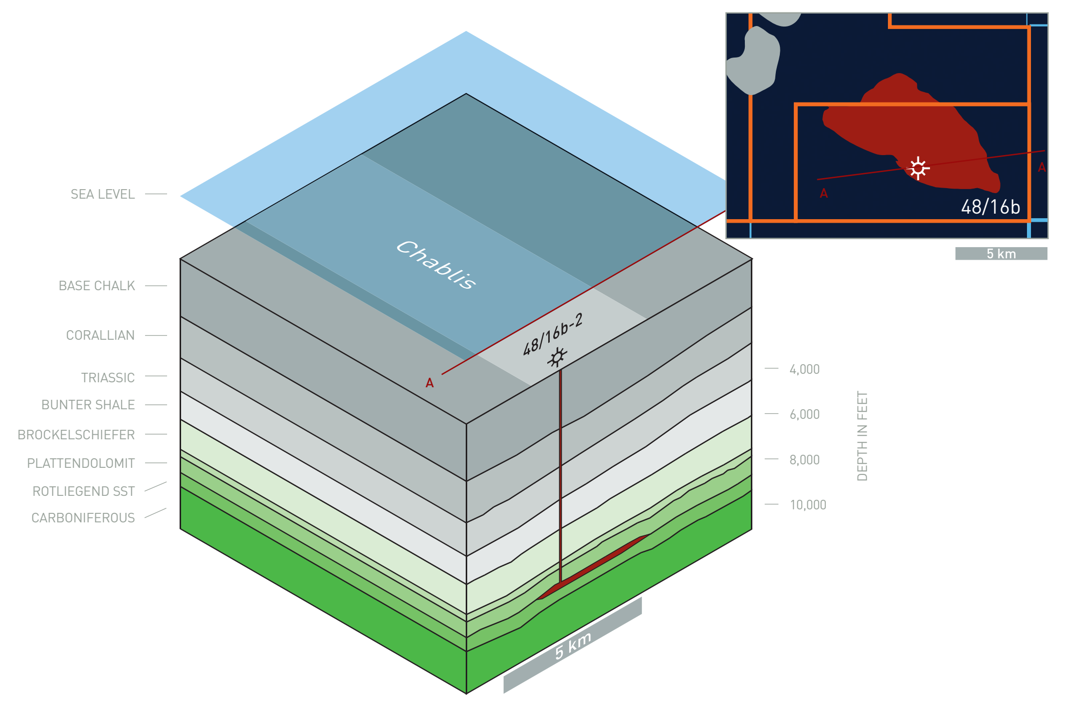
Block 54/1b

Block 54/1b covers 106 square kilometres in the Southern Gas Basin. Serica is operator and has a 100% interest in the block which it was awarded in 2004 in the UK 22nd Licensing Round. The Company has already fulfiled the work obligation on the block by acquiring 3D seismic data.

The key reservoir target in this block is the Rotliegend Leman Sandstone in which gas has been found in several locations close to Block 54/1b including the Davy Field, approximately five kilometres to the west. Reservoir quality in the block is expected to be good, with sand thickness anticipated to be from 400 to 750 ft.

Serica has completed a detailed analysis of the block using 3D seismic and regional well data, from which it has identified the Oak prospect, a Rotliegend Sandstone feature with a direct hydrocarbon indicator that appears to delineate a potential gas accumulation immediately up-dip from well 54/1b-2. Serica intends to drill the Oak prospect in late 2006, depending on the availability of a suitable drilling unit.

Block 48/16b – Chablis, geophysical projection



Block 48/16b and Blocks 48/16a, 47/20b

Block 48/16b and Blocks 48/16a, 47/20b are contiguous and cover a total of 377 square kilometres in the Southern Gas Basin. Serica has a 100% interest in these blocks, which contain one undeveloped discovery named Chablis and several undrilled prospects. The Chablis Field was discovered by the 48/16b-2 well, drilled by ConocoPhillips in 2001 but not production tested.

Serica has undertaken detailed geophysical and petrophysical studies of Chablis in order to define an appraisal plan. The field is close to existing infrastructure with two alternative transportation options for gas production. Whilst well 48/16b-2 demonstrated the presence of hydrocarbons, there remains uncertainty as to the quantity of hydrocarbons recoverable and an appraisal well will improve Serica's understanding of the gas accumulation.

Serica is planning to drill an appraisal well up-dip from the existing discovery.

In addition to Chablis in Block 48/16b, Serica is also evaluating a number of features in Blocks 48/16a and 47/20b, in particular the Sancerre prospect, with the aim of identifying possible satellites to Chablis.

The Chablis story

Block 48/16b was first licensed to Burmah Oil in 1964 but it was not until 1985 that the first exploration well, 48/16-1, was drilled by Phillips Petroleum. Unfortunately this well was unsuccessful.

Ten years later Shell/Esso were awarded the block, but sold it to Arco in 1999 without drilling. Following BP's takeover of Arco in 2000, BP sold the block to Petroleum Development Associates (PDA), now part of the Serica Group

In 2001 PDA sold the block to Conoco for US$4.5 million cash plus a reserves related success fee. Following the merger of Conoco and Phillips in 2002, well 48/16b-2 was drilled and discovered gas. The well was not tested since, in the light of the gas prices prevailing at that time, the Chablis discovery was of marginal interest to ConocoPhillips.

In July 2003, PDA was able to re-acquire 100% of the block from ConocoPhillips. Serica has carried out a new interpretation of the 3D seismic and has fully integrated the data from the 48/16b-2 well into the geological model. An independent consultant's report now estimates the recoverable reserves for Chablis to lie between 31 bcf and 518 bcf, with a 'best estimate' of 127 bcf. Despite the remaining uncertainty in potential reserves, at current UK gas prices a development of the Chablis Field would be an attractive project and Serica expects to drill an appraisal well in 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) of the financial and operational results of Serica Energy plc and its subsidiaries (the Group) should be read in conjunction with Serica's consolidated financial statements for the year ended 31 December 2005.

References to the 'Company' include Serica and its subsidiaries where relevant. All figures are reported in US dollars (US$) unless otherwise stated.

OVERALL PERFORMANCE

Serica's activities are centred on Indonesia, the UK and Spain. The Group has limited current oil and gas production with the main emphasis placed upon exploration and its future drilling programmes. During 2005, work has continued on building the Group's financial position and adding to its properties.

Two operated wells were completed in Indonesia and both were gas discoveries. The Kambuna-2 well tested at good flow rates, demonstrating commercial potential and highlighting further upside of the block and the Togar-1A well encountered high quality gas-bearing sands. In the UK Serica was awarded two new North Sea exploration blocks, Block 14/15a and Block 23/16f, in the UK 23rd Licensing Round.

During the year Serica acquired an additional 15% interest in the Asahan Offshore PSC from PT Medco E&P Lematang subject to the necessary government approvals. The consideration of US$1,000,000 was payable in cash. In addition Serica farmed out 25% working interests in the Glagah Kambuna TAC and the Asahan Offshore PSC to Duinord Petroleum Inc. in return for a 50% cost carry on the 2005 two-well programme plus some US$1,000,000 in back costs.

Following completion of a reorganisation on 1 September 2005 (the 'Reorganisation'), whereby the common shares of Serica Energy Corporation were automatically exchanged on a one-for-one basis for ordinary shares of the Company, the ordinary shares were successfully admitted to the London Alternative Investment Market ('AIM') on 13 December 2005.

The US$112 million before costs, raised in conjunction with the AIM listing, has enabled Serica to end the year with a robust balance sheet with net assets of US$131 million, and sufficient funding to progress with its forward programme. This includes the Kambuna Field Plan of Development submitted to the Indonesian authorities, targeting first production in 2008, and the Plan of Development for the Tanjung Perling Field to be submitted during first half 2006. In addition a drilling rig has been contracted for a first well on North Sea Block 23/16f to be spudded in the fourth quarter 2006 and the Company is concluding arrangements for a rig for its 2006/7 Indonesian drilling programme.

The results of Serica's operations are detailed below, and Serica has chosen to adopt International Financial Reporting Standards ('IFRS') and henceforth the results presented in this MD&A and the financial statements will be presented in accordance with IFRS. The transition date is 1 January 2004 and the first year reported under IFRS is the year ended 31 December 2005. Accordingly, comparatives have been restated from Canadian GAAP to comply with IFRS. The reconciliations to IFRS from the previously published Canadian GAAP financial statements are provided in note 30 to the audited financial statements. Under IFRS the Reorganisation was considered to be a reverse takeover by Serica Energy Corporation and as such the financial statements of the Group represent a continuation of Serica Energy Corporation.

RESULTS OF OPERATIONS

Serica generated a loss of US$4.1 million for 2005 compared to US$7.7 million for 2004.

	2005 US$000	2004 US$000
Sales revenue	**124**	**156**
Expenses:		
Administrative expenses	(5,340)	(4,735)
Reverse acquisition and listing expenses	—	(1,290)
Pre-licence costs	(695)	(61)
Shared-based payments	(1,013)	(167)
Depletion, depreciation & amortisation	(30)	(14)
Release of decommissioning provision	—	122
Gain on disposal of shareholding	—	141
Finance revenue	526	170
Loss before tax	**(6,428)**	**(5,678)**
Taxation credit/(charge)	2,309	(2,064)
Loss for the year	**(4,119)**	**(7,742)**

Revenues from oil and gas production are recognised on the basis of the Company's net working interest in its properties. Revenues throughout each period were generated from Serica's 10% interest in the Harimau producing gas and gas condensate field. Whilst steady during 2005, the decrease in sales revenues from US$0.16 million for 2004 to US$0.12 million for 2005 reflected the gradual decline in production levels partly offset by higher sales prices. Direct operating costs for the field during these periods were carried by PT Medco E&P Lematang.

Administrative expenses of US$5.3 million for 2005 increased from US$4.7 million for 2004. The increase reflects the expansion of the Company and its resources.

Share-based payment costs of US$1 million reflects share option grants made during the course of 2004 and 2005 and compares with a cost of US$0.17 million for 2004. Negligible depletion, depreciation and amortisation charges for 2005 represent office equipment only. The costs of petroleum and natural gas properties are not currently subject to such charges pending further evaluation.

Net interest income of US$0.53 million for 2005 compares with US$0.17 million 2004. The increase from last year was due to higher cash balances. There have been no gains on disposals this year whilst a gain of US$0.14 million arose during the equivalent period last year on the sale of shares in a company listed on the TSX Venture Exchange.

The taxation credit for the year arose from a reduction in the deferred tax liability following the redemption of the ENI Loan Note, with no reciprocal increase in current tax. Expenditures during 2005 have reduced any potential current income tax expense arising for the year to US$nil.

The net loss per share fell from US$0.16 to US$0.05 due to the substantial increase in the number of shares in issue, and the decrease in the net loss for the year compared to 2004.

SUMMARY OF QUARTERLY RESULTS

Quarter ended:	31 Mar	30 Jun	30 Sep	31 Dec
2005	US$000	US$000	US$000	US$000
Sales revenue	31	32	36	25
Loss for the quarter	1,455	1,486	775	403
Basic and diluted loss per share US$	0.02	0.02	0.01	0.01
2004				
Sales revenue	38	44	41	33
Loss for the quarter	2,123	1,570	3,276	773
Basic and diluted loss per share US$	0.05	0.03	0.07	0.01

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES

Current assets and liabilities

An extract of the balance sheet detailing current assets and liabilities is provided below:

	31 December 2005 US$000	31 December 2004 US$000
Current assets:		
Inventories	878	259
Financial assets	—	7,204
Trade and other receivables	2,106	1,920
Cash and cash equivalents	109,750	1,729
Total Current assets	**112,734**	**11,112**
Less Current liabilities:		
Trade and other payables	(7,136)	(1,315)
Net Current assets	**105,598**	**9,797**

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES CONTINUED

Current assets and liabilities (continued)

At 31 December 2005 the Company had net current assets of US$105.6 million which comprised current assets of US$112.7 million less current liabilities of US$7.1 million, giving an overall reduction in working capital of US$95.8 million in the year. The Company raised additional substantial new funds through the exercise of warrants and the raising of £64 million (US$112 million) before costs through a placing on AIM in 2005. Net outgoings in 2005 covered operational expenses and exploration work. This is mostly reflected in an increase in trade and other payables, the bulk of which related to drilling on the Glagah Kambuna TAC and on the Asahan Offshore PSC.

Long-term assets and liabilities

An extract of the balance sheet detailing long-term assets and liabilities is provided below:

	31 December 2005 US$000	31 December 2004 US$000
Intangible exploration assets	23,591	10,589
Goodwill	2,382	2,382
Property, plant and equipment	26	6
Long-term other receivables	1,758	302
Long-term other payables	(151)	(155)
Deferred income tax liabilities	(2,137)	(4,446)

During 2005, investments in petroleum and natural gas properties, represented by intangible exploration assets, increased to US$23.6 million. Of the 2005 investments, US$12.5 million was spent in Indonesia principally on drilling activity on the Asahan and Glagah Kambuna concessions, US$0.4 million in the UK on exploration work and a further US$0.1 million in Spain

Goodwill, representing the difference between the price paid on acquisitions and the fair value applied to individual assets, remained unchanged at US$2.4 million.

Long-term other receivables of US$1.8 million represents value added tax (VAT) on Indonesian capital spend, which is expected to be recovered once fields commence production.

Long-term other payables, comprise mainly VAT payable in Indonesia. The deferred income tax liability was reduced following the redemption of the ENI Loan Note.

Shareholders' equity

An extract of the balance sheet detailing shareholders' equity is provided below:

	31 December 2005 US$000	31 December 2004 US$000
Total share capital	148,745	33,047
Other reserves	1,269	256
Accumulated deficit	(18,947)	(14,828)

Total share capital represents shares at nominal value and share premium. Total share capital includes the total net proceeds (both nominal value and any premium on the issue of equity capital).

Issued share capital during 2005 was increased by the exercise of 12,494,400 warrants and share options at prices ranging from Cdn$0.50 to Cdn$1.20. In addition, 67,368,421 ordinary shares at £0.95 per ordinary share were issued upon admission to trading on AIM.

Capital resources

At 31 December 2005 Serica had US$105.6 million of net working capital and no significant long-term debt. At that date the Company had commitments to future minimum payments under operating leases in respect of rental office premises, office equipment and motor vehicles for each of the following years as follows:

	US$000
31 December 2006	275
31 December 2007	198
31 December 2008	183
31 December 2009	177
31 December 2010	36

The Company had no long-term debt, capital lease obligations, purchase obligations or other long-term obligations. In view of the limited revenues currently generated from oil and gas production Serica will utilise existing financial resources as required to fund its investment program and ongoing operations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet transactions or arrangements.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are detailed in note 2 to the attached audited 2005 financial statements. International Financial Reporting Standards have been adopted for 2005 and for 2004 comparatives. Details are provided in note 30 in the audited 2005 financial statements. The cost of exploring for and developing petroleum and natural gas reserves are capitalised. Unproved properties are subject to periodic impairment tests whilst the costs of proved properties are depleted over the life of such producing fields. In each case, calculations are based upon management assumptions about future outcomes, product prices and performance.

FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash, cash equivalents, accounts payable and accounts receivable. It is the management's opinion that the Group is not exposed to significant currency, interest or credit risks arising from its financial instruments other than as discussed below:

Cash and cash equivalents, which generally comprise short-term cash deposits, are generally held within the currency of likely future expenditures to minimise the impact of currency fluctuations. The majority of funds are currently held in US dollars to match the Group's exploration and appraisal commitments. The holding of £11.1 million at year-end reflected a proportion of UK licence commitments and administrative expenditures expected in £ sterling.

Following the recent fund-raising, Serica is holding significant net cash. Whilst this does leave exposure to interest rate fluctuations, given the level of expenditure plans over 2006/7 this is managed in the short-term through selecting treasury deposit periods of one to six months. The low levels of sales revenue leave little customer credit risk. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.

It is the management's opinion that the fair value of its financial instruments approximate to their carrying values, unless otherwise noted.

WARRANTS AND SHARE OPTIONS

As at 31 December 2005, the following warrants and options were outstanding:

	Expiry date	Amount	Value Cdn$
Warrants	6 Aug 2006	6,427,500	7,713,000
	28 Jul 2006	1,521,876	1,826,251
Share options	Aug 2009	500,000	555,000
	Feb 2009	947,500	1,895,000
	May 2009	100,000	200,000
	Dec 2009	365,000	365,000
	Jan 2010	600,000	600,000
	Jun 2010	1,700,000	3,060,000
			Value £
	Nov 2010	696,000	675,120

BUSINESS RISK AND UNCERTAINTIES

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

NATURE AND CONTINUANCE OF OPERATIONS

The principal activity of the Company is to identify, acquire and subsequently exploit oil and gas reserves primarily in Asia and Europe.

The Company's financial statements have been prepared with the assumption that the Company will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company currently has relatively minor operating revenues and, during the period ended 31 December 2005 the Company incurred losses of US$4.1 million from continuing operations. At 31 December 2005 the Company held cash and cash equivalents of US$109.8 million.

OUTSTANDING SHARE CAPITAL

As at 23 March 2006, the Company had 142,669,829 ordinary shares issued and outstanding.

ADDITIONAL INFORMATION

Additional information relating to Serica can be found on the Company's website at www.serica-energy.com and on SEDAR at www.sedar.com.

APPROVED ON BEHALF OF THE BOARD

Paul Ellis – Chief Executive Officer
31 March, 2006

Christopher Hearne – Finance Director

FORWARD LOOKING STATEMENTS

This disclosure contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond Serica Energy plc's control, including: the impact of general economic conditions where Serica Energy plc operates, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Serica Energy plc's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, that Serica Energy plc will derive therefrom.

DIRECTORS' REPORT

The Directors of the Company present their report and the Group financial statements of Serica Energy plc ('Serica' or the 'Company') for the year ended 31 December 2005.

Principal activities and business review

The principal activity of the Company and its subsidiary undertakings (the 'Group') is to identify, acquire and subsequently exploit oil and gas reserves primarily in Asia and Europe.

On 1 September 2005, Serica completed a reorganisation, whereby the common shares of, Serica Energy Corporation were automatically exchanged on a one-for-one basis for ordinary shares of the Company (the 'Reorganisation').

The financial statements of the Group represent a continuation of Serica Energy Corporation (see Note 1).

The Company was incorporated on 12 May 2005, and did not commence its activities until after the Reorganisation on 1 September 2005. No comparatives, therefore, have been presented for the balance sheet, cash flow statement and statement of changes in equity in 2005 financial statements of the stand alone Company.

A review of the business and the future developments of the Group is presented in the Chairman's Statement, the Chief Executive's Report and in the Management's Discussion and Analysis.

Results and dividends

The trading loss for the year was US$4,119,000 (2004: US$7,742,000).

The Directors do not recommend the payment of a dividend (2004: US$nil).

Financial instruments

The Group's financial risk management objectives and policies are discussed in the Financial Instruments section of the Management's Discussion and Analysis.

Events since balance sheet date

There have not been any significant events since the balance sheet date.

Directors and their interests

The following directors have held office of either the Company or Serica Energy Corporation since 1 January 2005:

Antony Craven Walker
Paul Ellis – Appointed 1 September 2005
Christopher Atkinson
Amjad Bseisu – Resigned 1 September 2005
Christopher Hearne – Appointed 15 June 2005
Neil Pike
Christopher Rivett-Carnac – Resigned 15 June 2005
James Steel
Kenneth Pearce – Resigned 1 September 2005

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Class of share	Interest at end of year	Interest at start of year	Warrants (5)
Antony Craven Walker (1)	Ordinary	3,043,750	3,043,750	1,521,876
Paul Ellis	Ordinary	250,000	—	Nil
Christopher Atkinson (2)	Ordinary	5,389,315	5,389,315	Nil
Christopher Hearne	Ordinary	600,551	—	Nil
Neil Pike (3)	Ordinary	200,000	200,000	100,000
James Steel (4)	Ordinary	45,950	45,950	Nil

1. 3,017,623 ordinary shares and 1,508,812 warrants are held by Christine Elizabeth Walker and 26,127 ordinary shares and 13,064 warrants are held by Devoran Trustees Limited.

2. 1,703,796 ordinary shares are held by Christopher Atkinson and 2,390,124 ordinary shares are held by Mercia Investment Limited (a company of which Christopher Atkinson is a director) with the balance held by Canadian brokers.

3. 100,000 ordinary shares and 50,000 warrants are held by Neil Pike and 100,000 ordinary shares and 50,000 warrants by Romayne Pike.

4. 45,000 ordinary shares are held by Steelbridge Holdings Limited (a family corporation).

5. The warrants are exercisable on the basis of one ordinary share for one warrant at an exercise price of Cdn $1.20 up to 6 August 2006 other than those of Christine Elizabeth Walker and Devoran Trustees Limited which are exercisable up to 28 July 2006.

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of other Group companies.

Directors and their interests continued

According to the register of directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

The Directors are interested in share options held by them pursuant to the terms of the Serica Energy Corporation option plan (a summary of which is set out in note 25) as follows:

	1/1/05	Granted	Exercised	31/12/05	Exercise price	Date of grant	Expiry date
A Craven Walker	200,000	—	—	200,000	C$1.11	31/08/04	30/08/07
	—	200,000	—	200,000	C$1.80	15/06/05	14/06/08
P Ellis		1,000,000	—	1,000,000	C$1.80	15/06/05	14/06/10
C Atkinson	450,000	—	—	450,000	C$2.00	20/02/04	19/02/09
	100,000	—	—	100,000	C$1.11	31/08/04	30/08/09
	50,000	—	—	50,000	C$1.00	15/12/04	14/12/09
	—	100,000	—	100,000	C$1.80	15/06/05	14/06/10
C Hearne	—	600,000	—	600,000	C$1.00	17/01/05	16/01/10
	—	100,000	—	100,000	C$1.80	15/06/05	14/06/10
N Pike	100,000	—	—	100,000	C$1.11	31/08/04	30/08/07
	—	100,000	—	100,000	C$1.80	15/06/05	14/06/08
J Steel	100,000	—	—	100,000	C$1.11	31/08/04	30/08/07
	—	100,000	—	100,000	C$1.80	15/06/05	14/06/08

Other than in the case of options granted to Antony Craven Walker, James Steel and Neil Pike which vest on the date of grant, the above share options were granted on the basis that the options vest as to one third on the first, second and third anniversary of grant.

The following Directors are also interested in share options held by them pursuant to the terms of the Serica Energy plc option plan (a summary of which is set out in note 25) as follows:

	1/1/05	Granted	Exercised	31/12/05	Exercise price	Date of grant	Expiry date
P Ellis	—	110,000	—	110,000	£0.97	23/11/05	22/11/10
C Atkinson	—	110,000	—	110,000	£0.97	23/11/05	22/11/10
C Hearne	—	110,000	—	110,000	£0.97	23/11/05	22/11/10

The options vest as to one third on the first, second and third anniversaries of grant.

Major interest in shares

The Company has been notified of the following interests representing 3% or more of the issued ordinary share capital of the Company as at 23 March 2006.

	No of shares	Percentage holding
ZZZ Canada Control account c/o Capita Registrars	41,163,491	28.9
Fidelity Investment Management	15,779,283	11.1
Cede & Co	9,083,797	6.4
Artemis UK Smaller Companies	9,000,000	6.3

Cede & Co and Capita Registrars are registered holders of the above ordinary shares and hold such shares as depositary and nominee for numerous clients who retain the beneficial interests in the ordinary shares. The Company has not been able to identify with any reasonable certainty the names of persons who are directly or indirectly interested in 3% or more of the issued ordinary shares of the Company and hold such ordinary shares through one or both of the above depositary. Canadian securities laws requires any party holding more than 10% of the Company's issued ordinary shares to disclose such interest. The Company is unaware of any such disclosures.

Supplier payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2005, the Company had an average of 18 days' purchases owed to trade creditors.

Auditor

A resolution to reappoint Ernst & Young LLP, Chartered Accountants, as auditor will be put to the members at the annual general meeting.

On behalf of the Board
Secretary

31 March 2006
Serica Energy plc

CORPORATE GOVERNANCE

The Directors recognise the importance of sound corporate governance and the guidelines set out in the Principles of Good Corporate Governance and Code of Best Practice (the 'Combined Code'). Companies on AIM are not required to comply with the Combined Code and due to its size the Company is not in full compliance, however the Company intends to comply with the Combined Code so far as is practicable and appropriate, as well as the regulations of the TSX Venture Exchange.

The Board and its committees

The Board of the Company consists of three Executive Directors and three Non-Executive Directors, of whom the Non-Executive Directors are considered to be independent. Their biographies included herein, demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group.

The Board retains full and effective control over the Company. The Company holds regular Board meetings at which financial and other reports are considered and, where appropriate, voted on. In addition to these meetings, further meetings are arranged when necessary to review strategy, planning, operational, financial performance, risk and capital expenditure and human resource and environmental management. The Board is also responsible for monitoring the activities of the executive management.

The Directors have established a Corporate Governance and Nomination Committee, an Audit Committee, Remuneration and Compensation Committee, and a Health, Safety and Environmental Committee.

Corporate Governance and Nomination Committee

The Committee proposes to meet at least three times a year. The Committee is responsible for reviewing, from time to time, the structure of the Board, determining successor plans for the Chairman and Chief Executive and identifying and recommending suitable candidates for appointment as Directors. The Committee is also responsible for corporate governance matters including the Company's compliance with AIM rules and TSX Venture Exchange guidelines. The Committee is chaired by Jim Steel and its other members are Neil Pike and Tony Craven Walker.

Audit Committee

The Committee meets at least quarterly and consists of not fewer than three members all of whom are Non-Executive Directors. The Committee's purpose is to assist the Board's oversight of the integrity of the Company's financial statements and other financial reporting, the independence and performance of the auditor, the performance of the Group's internal audit function, the regulation and risk profile of the Group and the review and approval of any related party transactions. The Committee may hold private sessions with management, the external auditor and the internal audit personnel. The Committee is chaired by Neil Pike and its other members are Tony Craven Walker and Jim Steel.

Remuneration and Compensation Committee

The Committee meets regularly to consider all material elements of remuneration policy, the remuneration and incentivisation of executive Directors and senior management and to make recommendations to the Board on the framework for executive remuneration and its cost. The Board is responsible for implementing the recommendations and agreeing the remuneration packages of individual Directors. The Committee is chaired by Tony Craven Walker and its other members are Neil Pike and Jim Steel.

Health, Safety and Environmental Committee

The Committee is responsible for matters affecting occupational health, safety and the environment, including the formation of health, safety and environmental policy statements. The Committee proposes to meet at least three times a year. The Committee is chaired by Paul Ellis and its other members are Chris Atkinson and Jim Steel.

DIRECTORS' BIOGRAPHIES

Antony Craven Walker
Chairman

Tony Craven Walker, age 62, started his career with BP and has been a leading figure in the British independent oil industry since the early 1970s. He founded two British independent oil companies, Charterhouse Petroleum, where he held the post of Chief Executive, and Monument Oil and Gas, where he held the post of Chief Executive and later became Chairman. He was also a founder member of BRINDEX (Association of British Independent Oil Exploration Companies).

Paul Ellis
Chief Executive Officer

Paul Ellis, age 59, has 35 years of experience within the areas of exploration, production, development and management of international oil and gas ventures. He joined Serica from Emerald Energy where, as Chief Operating Officer, he was instrumental in the successful expansion of the company's exploration and production interests. Paul commenced his career with BP and subsequently held senior positions in the international oil and gas industry including Technical Director at Charterhouse Petroleum, Director International E&P at British Gas and Senior Vice President International at PanCanadian Petroleum.

Christopher Atkinson
Chief Operating Officer

Chris Atkinson, age 48, is a founder of Serica and has over 20 years of experience in the international oil and gas industry. He holds a BSc (Hons) and PhD in Geology from the University of Wales. Chris began his career with Shell and thereafter spent 15 years with ARCO Oil & Gas in several senior management positions in the UK and international including Exploration Director of ARCO British and Exploration Vice President, Europe and North Africa. Chris is a fellow of the Geological Society of London.

Christopher Hearne
Finance Director

Chris Hearne, age 40, joined Serica from Intrepid Energy, a leading independent exploration and production company in the North Sea, where he was responsible for corporate finance for eight years. In this capacity, he contributed to the growth of Intrepid Energy from a start-up company to its sale for over US$1 billion. Prior to joining Serica he worked as an investment banker with Lehman Brothers and Robert Fleming.

James Steel
Non-Executive Director

Jim Steel, age 72, joined Serica as a non-executive Director in June 2004. He has been involved in the oil and gas industry since 1961 when he was appointed Legal Advisor to BP Canada. He held a number of positions with BP and BP Canada through to 1968. Following this, he practiced as a corporate, commercial and oil and gas lawyer in Calgary, Alberta.

Neil Pike
Non-Executive Director

Neil Pike, age 60, has been involved in the global petroleum business as a financier since joining the energy department at Citibank in 1975. Neil remained an industry specialist with Citibank throughout his career and was closely involved in the development of specialised oil field finance. Latterly he was responsible for Citibank's relationships with the oil and gas industry worldwide.

Chris Hearne
Finance Director

Chris came to Serica from Intrepid Energy, a leading UK independent oil company with North Sea interests. In his position as corporate finance manager, over a period of eight years he contributed to the growth of this start up company, culminating in its recent sale for US$1 billion.

Chris started his career as an investment banker at Robert Fleming & Co Ltd and Lehman Brothers, moved to Intrepid in 1997 and joined Serica in January 2005.

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company and the Group have complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

AUDITOR'S REPORT

We have audited the Group and Company financial statements (the 'financial statements') for the year ended 31 December 2005 which comprise the Group Income Statement, Group and Parent Company Statement of Change in Shareholders' Equity, Group and Parent Company Balance Sheets, Group and Parent Company Cash Flow Statements and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditor
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the AIM listing regulations is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, Chief Executive Officer's Report, Review of Operations, Corporate Governance Statement, Management Discussion and Analysis and Directors' Report. We consider the implications for our report if we become aware of any apparent mis-statement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Report to be audited.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its loss for the year then ended;

- the parent Company financial statements give a true and fair view, in accordance with IFRS adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2005; and

- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS
As explained in note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with those IFRS as adopted by the European Union, has also complied with IFRS as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2005 and of its loss for the year then ended.

Ernst & Young LLP
Registered Auditor
1 More London Place
London
SE1 2AF

31 March 2006

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

Notes		2005 US$000	2004 US$000
3	**Sales revenue**	**124**	**156**
	Cost of sales	—	—
	Gross profit	**124**	**156**
	Administrative expenses	(5,340)	(4,735)
	Reverse acquisition and listing expenses	—	(1,290)
	Pre-licence costs	(695)	(61)
	Share-based payments	(1,013)	(167)
5	Depreciation, depletion and amortisation	(30)	(14)
	Release of decommissioning provision	—	122
15	Gain on disposal of shareholding	—	141
	Operating loss before finance revenue and tax	**(6,954)**	**(5,848)**
8	Finance revenue	526	170
	Loss before taxation	**(6,428)**	**(5,678)**
9a	Taxation credit/(charge) for the year	2,309	(2,064)
	Loss for the year	**(4,119)**	**(7,742)**
	Loss per ordinary share (US$)		
10	Basic and diluted LPS	(0.05)	(0.16)

BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2005

Notes		Group 2005 US$000	2004 US$000	Company 2005 US$000
11	Intangible exploration assets	23,591	10,589	—
12	Goodwill	2,382	2,382	—
13	Property, plant and equipment	26	6	—
14	Investments in subsidiaries	—	—	119,649
16	Other receivables	1,758	302	—
		27,757	13,279	119,649
17	Inventories	878	259	—
18	Financial assets	—	7,204	—
19	Trade and other receivables	2,106	1,920	957
20	Cash and cash equivalents	109,750	1,729	107,080
		112,734	11,112	108,037
	Total assets	**140,491**	**24,391**	**227,686**
	Current liabilities			
21	Trade and other payables	(7,136)	(1,315)	(2,003)
	Non-current liabilities			
	Other payables	(151)	(155)	—
9	Deferred income tax liabilities	(2,137)	(4,446)	—
	Total liabilities	**(9,424)**	**(5,916)**	**(2,003)**
	NET ASSETS	**131,067**	**18,475**	**225,683**
23	Share capital	148,745	33,047	113,473
14	Merger reserve	—	—	112,174
	Other reserves	1,269	256	1,269
	Accumulated deficit	(18,947)	(14,828)	(1,233)
	TOTAL EQUITY	**131,067**	**18,475**	**225,683**

Approved by the Board on 31 March 2006

Paul Ellis – Chief Executive Officer

Christopher Hearne – Finance Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

GROUP	Share capital US$000	Special warrants US$000	Other reserves US$000	Deficit US$000	Total US$000
At 1 January 2004	13,000	5,327	99	(7,086)	11,340
Issue of shares	13,714	—	—	—	13,714
Conversion of warrants	6,245	(5,327)	—	—	918
Exercise/(forfeiture) of options	88	—	(10)	—	78
Share-based payments	—	—	167	—	167
Loss for the year	—	—	—	(7,742)	(7,742)
At 1 January 2005	**33,047**	**—**	**256**	**(14,828)**	**18,475**
Conversion of warrants	10,190	—	—	—	10,190
Issue of 'A' share	90	—	—	—	90
Issue of shares (net)	105,418	—	—	—	105,418
Share-based payments	—	—	1,013	—	1,013
Loss for the year	—	—	—	(4,119)	(4,119)
At 31 December 2005	**148,745**	**—**	**1,269**	**(18,947)**	**131,067**

COMPANY	Share capital US$000	Merger reserve US$000	Other reserves US$000	Deficit US$000	Total US$000
At incorporation	—	—	—	—	—
Share reorganisation	7,475	112,174	886	(886)	119,649
Issue of 'A' share	90	—	—	—	90
Issue of shares (net)	105,418	—	—	—	105,418
Conversion of warrants	490	—	—	—	490
Share-based payments	—	—	383	—	383
Loss for the period	—	—	—	(347)	(347)
At 31 December 2005	**113,473**	**112,174**	**1,269**	**(1,233)**	**225,683**

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

Notes		Group 2005 US$000	2004 US$000	Company 2005 US$000
	Cash flows from operating activities			
	Operating loss	(6,954)	(5,848)	(579)
	Adjustments for			
	Depreciation, depletion and amortisation	30	14	—
	Gain on disposal of shareholding	—	(141)	—
	Share-based payments	1,013	167	383
	Release of decommissioning provision	—	(122)	—
	Foreign exchange loss/(gain) on investment	417	(288)	—
	Changes in working capital	2,184	78	326
	Cash generated from operations	(3,310)	(6,140)	130
	Taxes received	179	168	—
	Net cash flow from operations	**(3,131)**	**(5,972)**	**130**
	Cash flows from investing activities			
	Interest received	292	30	—
	Purchases of property, plant and equipment	(50)	(3)	—
	Purchase of intangible exploration assets	(14,048)	(2,559)	—
	Disposal of intangible exploration assets	1,046	—	—
	Acquisitions, net of cash acquired	—	(3,746)	—
	Proceeds from disposal of investment	6,772	410	—
	Net cash used in investing activities	**(5,988)**	**(5,868)**	**—**
	Cash proceeds from financing activities			
	Net proceeds from issue of shares	106,950	78	106,950
	Proceeds on exercise of warrants	10,190	9,239	—
	Net cash from financing activities	**117,140**	**9,317**	**106,950**
	Net increase/(decrease) in cash and cash equivalents	108,021	(2,523)	107,080
	Cash and cash equivalents at 1 January	1,729	4,252	—
20, 24	**Cash and cash equivalents at 31 December**	**109,750**	**1,729**	**107,080**

NOTES TO THE FINANCIAL STATEMENTS

1. AUTHORISATION OF THE FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS

The Group's and Company's financial statements year ended 31 December 2005 were authorised for issue by the Board of the Directors on 31 March 2006 and the balance sheets were signed on the Board's behalf by Paul Ellis and Chris Hearne. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales. The Company's ordinary shares are traded on AIM and the TSX Venture Exchange.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2005. The Company's financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Company for the period ended 31 December 2005 and as applied in accordance with the provisions of the Companies Act 1985. The Group and Company's financial statements are also consistent with IFRS as issued by the IASB. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes. The loss dealt with in the financial statements of the parent Company was US$347,000.

On 1 September 2005, the Company completed the Reorganisation whereby the common shares of Serica Energy Corporation were automatically exchanged on a one-for-one basis for ordinary shares of Serica Energy plc, a newly formed company incorporated under the laws of the United Kingdom. In addition, each shareholder of the Corporation received beneficial ownership of part of the 'A' share of Serica Energy plc issued to meet the requirements of public companies under the United Kingdom jurisdiction. Under IFRS this Reorganisation was considered to be a reverse takeover by Serica Energy Corporation and as such the financial statements of the Group represent a continuation of Serica Energy Corporation.

2. ACCOUNTING POLICIES

Basis of preparation

Following the formation of the Serica Energy Corporation through a merger of Petroleum Development Associates (Oil & Gas) Limited (PDA) and Kyrgoil Holding Corporation (KGO) on 29 January 2004, the Group's financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP).

The adoption of IFRS by companies listed on AIM is mandatory for periods beginning after 1 January 2007, with comparative information for the previous year, but earlier adoption is encouraged. The Group has chosen to adopt IFRS to coincide with its listing on AIM in London and henceforth Serica's financial statements will be presented in accordance with IFRS. The transition date is 1 January 2004 and the first year reported under IFRS is the year ended 31 December 2005.

This is the first year in which the Group has prepared its financial statements under IFRSs and the comparatives have been restated from Canadian GAAP to comply with IFRS. The reconciliations to IFRS from the previously published Canadian GAAP financial statements are summarised in note 30.

The Company was incorporated on 12 May 2005, and did not commence its activities until after the Reorganisation on 1 September 2005. No comparatives, therefore, have been presented for the balance sheet, cash flow statement and statement of changes in equity in the 2005 financial statements of the stand alone Company.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2005.

The Group and Company financial statements are presented in US dollars and all values are rounded to the nearest thousand dollars (US$000) except when otherwise indicated.

New standards and interpretations

During the year the IASB and IFRIC have issued certain standards and interpretations with an effective date after the date of these financial statements. The Directors do not anticipate that the adoption of these statements and interpretations will have a material impact on the Group's financial statements in the period of initial application.

The Group has early adopted IFRS 6 'Exploration for and Evaluation of Mineral Resources' in its current financial statements. The impact of this adoption has resulted in pre-licence and relinquished costs being expensed in the income statement and is covered in note 30 of the financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Serica Energy Corporation, Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited, Serica Energia Iberica S.L., Firstearl Limited, Serica Energy (UK) Limited, PDA Lematang Limited, APD (Asahan) Limited, APD (Biliton) Limited, APD (Glagah Kambuna) Limited and Serica Energy Pte Limited. Together these comprise the 'Group'.

All significant inter-company balances and transactions have been eliminated upon consolidation.

Foreign currency translation

The functional and presentational currency of Serica Energy plc and all its subsidiaries is US dollars.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the foreign currency rate of exchange ruling at the balance sheet date and differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. Exchange gains and losses arising from translation are charged to the profit and loss account as an operating item.

2. ACCOUNTING POLICIES CONTINUED

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. The purchase price of an acquisition is measured as the cash paid plus the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Goodwill on acquisition is initially measured at cost being the excess of purchase price over the fair market value of identifiable assets, liabilities and contingent liabilities acquired. Following initial acquisition it is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to an impairment test at least annually and more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units (business segments) expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Reverse takeovers

Certain acquisitions whereby the substance of the acquisition is that the acquirer is the entity whose equity interests have been acquired, and the issuing entity is the acquiree, are considered to represent a reverse takeover. The legal subsidiary being acquired is the acquirer if it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.

Reverse takeovers are treated as a business combination whereby the consolidated financial statements prepared following the takeover represent a continuation of the financial statements of the legal subsidiary acquired.

Joint venture activities

The Group conducts petroleum and natural gas exploration and production activities jointly with other venturers who each have direct ownership in and jointly control the assets of the ventures. These are classified as jointly controlled assets and consequently, these financial statements reflect only the Company's proportionate interest in such activities.

In accordance with industry practice, the Group does not record its share of costs that are 'carried' by third parties in relation to its farm-in agreements. Similarly, while the Group has agreed to carry the costs of another party to a Joint Operating Agreement (JOA) in order to earn additional equity, it records its paying interest that incorporates the additional contribution over its equity share.

Serica currently has a 10% working interest in the Lematang PSC, 55% working interest in both the Asahan Offshore PSC and the Glagah Kambuna TAC and a 90% working interest in the Biliton PSC. In the Lematang PSC, the Group is being carried by PT Medco E&P Lematang for its share of all costs arising under the PSC up to a maximum of US$2.8million. The Group currently has paying interests of 61.2% in the Asahan PSC, 61.4% in the Glagah Kambuna TAC and 100% in the Biliton PSC. Upon the successful development of an oil or gas field in a contract area, the cumulative excess of paying interest over working interest in that contract is generally repaid out of the field production revenue attributable to the carried interest holder.

Oil and gas properties

The Group's entire capitalised oil and gas costs relate to properties that are in the exploration and evaluation stage. This includes the Kambuna Field for which a Plan of Development has been submitted including plans for appraisal during 2006.

As allowed under IFRS 6 and in accordance recent clarification issued by the International Financial Reporting Interpretations Committee, the Group has continued to apply its existing accounting policy to exploration and evaluation activity, subject to the specific requirements of IFRS 6. The Group will continue to monitor the application of these policies in the light of expected future guidance on accounting for oil and gas activities.

Pre-licence award costs
Costs incurred prior to the award of oil and gas licences, concessions and other exploration rights are expensed in the income statement.

Exploration and evaluation
The costs of exploring for and evaluating oil and gas properties, including the costs of acquiring rights to explore, geological and geophysical studies, exploratory drilling and directly related overheads, are capitalised and classified as intangible exploration assets (E&E assets). These costs are allocated in cost pools based upon three regional business segments; Indonesia, UK and Spain.

E&E assets are not amortised prior to the conclusion of appraisal activities but are assessed for impairment, in cash-generating units defined on a geographical segment basis, when facts and circumstances suggest that the carrying amount of a cash generating unit may exceed its recoverable amount. Recoverable amounts are determined based upon risked potential, or where relevant, discovered oil and gas reserves. When an impairment test indicates an excess of carrying value compared to the recoverable amount, the carrying value of the cost pool is written down to the recoverable amount in accordance with IAS 36. Such surplus is charged to the income statement.

Costs of relinquished licences are charged to the income statement.

The E&E phase is completed when either the technical feasibility and commercial viability of extracting a mineral resource are demonstrable or no further prospectivity is recognised. At that point, if commercial reserves have been discovered, the carrying value of the relevant assets, net of any impairment write-down, is classified as a development asset and tested for impairment. If commercial reserves have not been discovered then the costs of such assets will be charged to the income statement.

Costs to-date in respect of the Singa Field have been carried by a third party and consequently no costs are held within fixed assets

Development Costs
Serica has no costs classified as development costs.

Decommissioning
Liabilities for decommissioning costs are recognised when the Group has an obligation to dismantle and remove a production, transportation or processing facility and to restore the site on which it is located. Liabilities may arise upon construction of such facilities, upon acquisition or through a subsequent change in legislation or regulations. The amount recognised is the estimated value of future expenditure determined in accordance with local conditions and requirements. A corresponding tangible item of property, plant and equipment equivalent to the provision is also created. The Group did not carry any provision for decommissioning costs during 2005.

Any changes in the present value of the estimated expenditure is added to or deducted from the cost of the assets to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.

2. ACCOUNTING POLICIES CONTINUED

Property, plant and equipment

Computer equipment and fixtures, fittings and equipment are recorded at cost as tangible assets. The straight-line method of depreciation is used to depreciate the cost of these assets over their estimated useful lives. Computer equipment is depreciated over three years and fixtures, fittings and equipment over four years.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, and transportation expenses.

Investments

In its separate financial statements the Company recognises its investments in subsidiaries at cost.

Financial Instruments

Financial instruments comprise financial assets, financial liabilities and equity instruments.

Trade and other receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Bad debts are written of when identified.

Financial assets comprise investments and are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are de-recognised or impaired, as well as through the amortisation process.

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue from oil and natural gas production is recognised on an entitlement basis for the Group's net working interest.

Share-based payment transactions

The Company operates schemes under which employees may be awarded share options from time-to-time. The fair value of each option at the date of the grant is estimated using the Black-Scholes option-pricing model based upon the option price, the share price at the date of issue, volatility and the life of the option. The estimated fair value of the option is amortised to expense over the options' vesting period on a straight-line basis with a corresponding increase to equity. It is assumed that all performance criteria are met. Estimated associated national insurance charges are expensed in the income statement.

No expense is recognised for awards that do not ultimately vest except for awards when vesting is conditional on a market condition. In which case such awards are treated as vesting provided that all other performance conditions are satisfied.

Where an option is forfeited without meeting the vesting conditions, the associated prior charges are credited to the profit and loss account with an equivalent reduction to equity.

Equity

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Income taxes

Deferred tax is provided using the liability method and tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Provision is made for temporary differences at the balance sheet date between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is provided on all temporary differences except for:

- temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and
- temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the income statement nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are presented net only if there is a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

Earnings per share

Earnings per share is calculated using the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all potentially dilutive shares to ordinary shares. It is assumed that any proceeds obtained on the exercise of any options and warrants would be used to purchase ordinary shares at the average price during the period. Where the impact of converted shares would be anti-dilutive, these are excluded from the calculation of diluted earnings.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

3. REVENUE

	2005 US$000	2004 US$000
Gas and gas condensate sales	124	156

Direct operating costs for the Harimau Field during these periods were carried by PT Medco E&P Lematang.

4. SEGMENTAL INFORMATION

The primary segment reporting format is determined to be geographical segments and they are based on the location of the Group's assets. The Group has only one business segment, that of oil & gas exploration.

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments for the years ended 31 December 2005 and 2004. Costs of the Singapore office are included in the Indonesian geographical segment.

Year ended 31 December 2005	Indonesia US$000	UK US$000	Spain US$000	Total US$000
Revenue	124	—	—	124
Other segment information				
Goodwill	1,998	293	91	2,382
Intangible assets	20,656	2,244	691	23,591
Other assets	4,654	1,528	10	6,192
Unallocated assets				108,326
Total assets	**27,308**	**4,065**	**792**	**140,491**
Segment liabilities	(6,720)	(2,613)	(91)	(9,424)
Unallocated liabilities				—
Total liabilities	(6,720)	(2,613)	(91)	(9,424)
Capital expenditure 2005				
Intangible exploration assets	13,488	424	136	14,048
Property, plant and equipment	36	14	—	50

Year ended 31 December 2004	Indonesia US$000	UK US$000	Spain US$000	Total US$000
Revenue	156	—	—	156
Other segment information				
Goodwill	1,998	293	91	2,382
Intangible assets	8,214	1,820	555	10,589
Other assets	3,100	8,314	6	11,420
Unallocated assets				—
Total assets	**13,312**	**10,427**	**652**	**24,391**
Segment liabilities	(3,094)	(2,730)	(92)	(5,916)
Unallocated liabilities	—	—	—	—
Total liabilities	**(3,094)**	**(2,730)**	**(92)**	**(5,916)**
Capital expenditure 2004				
Intangible exploration assets	2,348	725	188	3,261
Property, plant and equipment	—	3	—	3

5. GROUP OPERATING LOSS

	2005 US$000	2004 US$000
This is stated after charging:		
Depreciation of property plant and equipment	30	14
Total depreciation and amortisation expense	**30**	**14**
Operating lease rentals:		
Land and buildings	72	40
Other	45	25
Total lease payments recognised as an expense	**117**	**65**

6. AUDITOR'S REMUNERATION

	2005 US$000	2004 US$000
Audit of the financial statements (i)	189	287
	189	**287**
Other fees to auditor:		
Corporate finance services (ii)	826	—
	826	**—**

(i) US$112,000 (2004 – US$nil) of this relates to the Company.

(ii) US$826,000 of corporate finance service fees were incurred in the December 2005 AIM listing and, as a cost of issue of shares, have been netted against share premium (see note 23).

7. STAFF COSTS AND DIRECTORS' EMOLUMENTS

a) Staff Costs

The average monthly number of persons (excluding directors) employed by the Group during the year was:

	2005	2004
Management	3	3
Technical	5	5
Administration	7	5
	15	**13**

Staff costs for the above persons:	**US$000**	**US$000**
Wages and salaries	948	843
Social security costs	114	87
Other pension costs	25	35
	1,087	**965**

b) Directors' Emoluments

The emoluments of the individual Directors were as follows:

	Basic salary and fees 2005 US$000	Benefits in kind 2005 US$000	Total 2005 US$000	Total 2004 US$000
A Craven Walker	87	—	87	—
P Ellis – Appointed 1 September 2005	108	—	108	—
C Atkinson	195	115	310	310
C Hearne – Appointed 15 June 2005	148	—	148	—
J Steel	39	—	39	18
N Pike	55	—	55	18
A Bseisu – Resigned 1 September 2005	18	—	18	18
C Rivett-Carnac – Resigned 15 June 2005	195	—	195	208
	845	**115**	**960**	**572**
Number of Directors securing benefits under defined contribution schemes			—	—
Number of Directors who exercised share options			—	—

8. FINANCE REVENUE

	2005 US$000	2004 US$000
Bank interest receivable	404	45
Income from investments	122	125
Total finance revenue	**526**	**170**

9. TAXATION

a) Tax on loss on ordinary activities

	2005 US$000	2004 US$000
Tax charged in the income statement		
UK corporation tax	–	–
Foreign tax	–	–
Current income tax charge	**–**	**–**
Amounts overprovided in previous years	–	–
Total current income tax	**–**	**–**
Deferred tax		
Gain on ENI Loan Note	(2,064)	2,064
Tax losses carried forward	(245)	–
Tax (credit)/charge in the income statement	**(2,309)**	**2,064**

b) Reconciliation of the total tax (credit)/charge

The tax in the income statement for the year differs from the amount that would be expected by applying the standard UK corporation tax rate for the following reasons:

	2005 US$000	2004 US$000
Loss from operations before taxation and accounting loss	(6,428)	(5,678)
Expected tax recovery at 30% (2004 – 30%)	(1,928)	(1,703)
Expenses not deductible for tax purposes	870	1,342
Book/tax basis differential on redemption of ENI Loan Note	2,025	–
Unrecognised benefit of future tax asset	–	407
Accelerated tax depreciation	(967)	(46)
Gain on ENI Loan Note	(2,064)	2,064
Tax losses carried forward	(245)	–
Tax (credit)/charge in the income statement	**(2,309)**	**2,064**

9. TAXATION CONTINUED

c) Unrecognised tax losses

The Group has tax losses which arose in the UK of US$ 16.3 million (2004: US$16.8 million). The benefits of these tax losses has not been recognised in these consolidated statements to the extent that they are not available to set against the deferred tax liability.

d) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2005 US$000	2004 US$000
Deferred tax liability		
Fair value adjustments	2,137	4,446
Deferred tax liability	**2,137**	**4,446**
Deferred tax asset		
Tax losses carried forward	–	–
Deferred tax asset	**–**	**–**

The deferred tax in the Group income statement is as follows:

	2005 US$000	2004 US$000
Deferred tax in the income statement		
Gain on ENI Loan Note	(2,064)	2,064
Tax losses carried forward	(245)	–
Deferred income tax (credit)/expense	**(2,309)**	**2,064**

10. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2005 US$000	2004 US$000
Net loss attributable to equity holders of the parent	(4,119)	(7,742)
Net loss attributable to equity holders of the parent	**(4,119)**	**(7,742)**

	2005 US$000	2004 US$000
Basic and diluted weighted average number of shares	76,831	**47,904**

As a result of the net loss for the year ended 31 December 2004 and 2005, there is no dilutive effect of the share options and warrants.

11. INTANGIBLE EXPLORATION ASSETS

Group	Total US$000
Cost	
1 January 2005	10,589
Additions	13,002
31 December 2005	23,591
Depreciation	
1 January 2005	–
Charge for the year	–
31 December 2005	–
Net book value	
31 December 2005	23,591
31 December 2004	**10,589**

The Company has no intangible exploration assets

12. GOODWILL

Group	Total US$000
At 1 January and as at 31 December 2005	**2,382**

The Company has no goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the cash-generating units, which are also geographical segments representing the location of the Group's assets, as follows: UK (US$293,000), Indonesia (US$1,998,000) and Spain (US$91,000).

These represent the lowest level within the Group at which goodwill is monitored for internal management purposes. For the purpose of impairment review, the recoverable amount attributed to a cash-generating unit is its value in use after applying a 10% discount rate (2004 – 10%).

13. PROPERTY, PLANT AND EQUIPMENT

Group	Computer/ IT Equipment US$000	Fixtures fittings & equipment US$000	Total US$000
Cost			
1 January 2004	28	6	34
Additions	3	—	3
31 December 2004	31	6	37
Additions	50	—	50
31 December 2005	81	6	87
Depreciation			
1 January 2004	14	3	17
Charge for the year	12	2	14
31 December 2004	26	5	31
Charge for the year	29	1	30
31 December 2005	55	6	61
Net book value			
31 December 2005	26	—	26
31 December 2004	**5**	**1**	**6**
1 January 2004	**14**	**3**	**17**

The Company has no property, plant and equipment

14. INVESTMENTS

Company – Investment in subsidiaries

	2005 US$000
Cost:	
At incorporation	–
Additions – On 1 September share Reorganisation	119,649
At 31 December 2005	**119,649**

In the Company financial statements, the cost of the investment acquired on the Reorganisation was calculated with reference to the market value of Serica Energy Corporation as at the date of acquisition. As a UK company, under Section 131 of the Companies Act, the Company is entitled to merger relief on its acquisition of Serica Energy Corporation, and the excess of US$112,174,000 over the nominal value of shares issued (US$7,475,000) has been credited to a merger reserve.

Details of the investments in which the Group and the Company (unless indicated) holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	Holding	% voting rights and shares held	Nature of business
Serica Energy Corporation (ii)	Ordinary	100	Admin
Firstearl Ltd (i)	Ordinary	100	Holding
Serica Energy (UK) Ltd (i)	Ordinary	100	Exploration
Serica Energia Iberica SL (i)	Ordinary	100	Exploration
Serica Energy Pte Ltd (i&ii)	Ordinary	100	Admin
APD Ltd (i&ii)	Ordinary	100	Holding
APD(Glagah Kambuna) Ltd (i&ii)	Ordinary	100	Exploration
APD (Asahan) Ltd (i&ii)	Ordinary	100	Exploration
APD (Biliton) Ltd (i&ii)	Ordinary	100	Exploration
Pda Asia Ltd (i&ii)	Ordinary	100	Holding
Pda (Lematang) Ltd (i)	Ordinary	100	Exploration

(i) Held by a subsidiary undertaking
(ii) Incorporated in the British Virgin Islands

15. BUSINESS COMBINATIONS

Acquisitions

On 22 August 2005 Asia Petroleum Development (Asahan) Limited acquired an additional 15% interest in the Asahan Offshore Production Sharing Contract (PSC) from PT Medco E&P Lematang subject to the necessary government approvals. The consideration of US$1,000,000 was payable in cash.

The net effect of the acquisition on the Group's balance sheet and the provisional allocation of assets at acquisition were as follows:

	Book Value US$000	Fair Value Adjustment US$000	Preliminary Fair Value US$000
Property, plant and equipment	599	401	1,000
Working capital	—	—	—
	599	401	1,000

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

Farm outs

On 14 July 2005 Serica farmed out 25% working interests in Glagah Kambuna and Asahan to Duinord Petroleum Inc. in return for a 50% cost carry on the two-well programme plus some US$1,000,000 in back costs. Proceeds received were credited to fixed assets in line with the current accounting policy for exploration and evaluation assets (see note 2) and no profit or loss on disposal is calculated.

Disposals

In 2004, the Group disposed of the common shares of an investment in a company traded on the TSX Venture Exchange, resulting in a gain of US$141,000.

16. OTHER RECEIVABLES

	Group 2005 US$000	2004 US$000	Company 2005 US$000	2004 US$000
Other debtors	1,758	302	—	—
	1,758	**302**	**—**	**—**

17. INVENTORIES

	Group 2005 US$000	2004 US$000	Company 2005 US$000	2004 US$000
Materials and spare parts	878	259	—	—
	878	**259**	**—**	**—**

18. FINANCIAL ASSETS

	Group 2005 US$000	2004 US$000	Company 2005 US$000	2004 US$000
Investments in convertible debentures	—	15	—	—
Floating Rate Guaranteed Unsecured loan Note	—	7,189	—	—
	—	**7,204**	**—**	**—**

The Group had a Floating Rate Guaranteed Unsecured Loan Note issued by ENI Investments plc. The Loan Note was redeemed on 30 June 2005 and the proceeds of £3.75 million received in July.

19. TRADE AND OTHER RECEIVABLES

	Group 2005 US$000	2004 US$000	Company 2005 US$000
Due within one year:			
Amounts owed by Group undertaking	—	—	622
Corporation tax recoverable	34	215	—
Other receivables	1,816	1,705	335
Prepayments and accrued income	256	—	—
	2,106	1,920	957

20. CASH AND SHORT-TERM DEPOSITS

	Group 2005 US$000	2004 US$000	Company 2005 US$000
Cash at bank and in hand	1,424	1,729	154
Short-term deposits	108,326	—	106,926
	109,750	1,729	107,080

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the above amounts at 31 December.

21. TRADE AND OTHER PAYABLES

	Group 2005 US$000	2004 US$000	Company 2005 US$000
Current			
Trade payables	4,010	1,307	734
Other payables	3,126	8	1,269
	7,136	1,315	2,003

22. FINANCIAL INSTRUMENTS

An explanation of the Group's financial instrument risk management objectives, policies and strategies are set out in the discussion of the Financial Instrument Section of the Management's Discussion and Analysis.

Interest rate risk profile of financial assets and liabilities.

The interest rate risk profile of the financial assets and liabilities of the Group as at 31 December is as follows:

Group

Year ended 31 December 2005

	Within 1 year US$000	1-2 years US$000	Total US$000
Fixed rate			
Cash	—	—	—
Short-term deposits	108,326	—	108,326
			108,326
Floating rate			
Cash	1,424	—	1,424
Short-term deposits	—	—	—
			1,424

Year ended 31 December 2004

	Within 1 year US$000	1-2 years US$000	Total US$000
Fixed rate			
Investment in convertible debentures	15	—	15
Floating rate			
ENI Loan Note	7,189	—	7,189
Cash	1,729	—	1,729
			8,918

The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The interest rate profile of the financial assets and liabilities of the Company as at 31 December is as follows:

	Within 1 year US$000	1-2 years US$000	Total US$000
Company – Fixed rate			
Short-term deposits	106,926	—	106,926
			106,926
Company – Floating rate			
Cash	154	—	154
			154

Credit risk
There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

22. FINANCIAL INSTRUMENTS CONTINUED

Foreign currency risk

The Group enters into transactions denominated in currencies other than its US dollar reporting currency. Foreign denominated balances, subject to exchange rate fluctuations, at year-end were as follows:

	Group 2005	2004	Company 2005
Cash and cash equivalents			
Pounds sterling	11,055,740	491,851	10,876,695
Canadian dollars	221,192	330,770	—
Singapore dollars	58,501	43,715	—
Indonesian rupiah	226,373,663	89,533,310	—
Euros	7,863	4,246	—
Accounts receivable			
Pounds sterling	271,190	206,191	—
Singapore dollars	30,800	30,800	—
Short-term investments			
Pounds sterling	—	3,752,174	—
Canadian dollars	—	22,029	—
Accounts payable			
Pounds sterling	469,160	83,150	426,764
Canadian dollars	132,779	—	—
Singapore dollars	—	6,750	—
Indonesian rupiah	439,025,024	—	—
Euros	5,788	1,093	—

Fair values of financial assets and liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements.

	Book value 2005 US$000	2004 US$000	Fair value 2005 US$000	2004 US$000
Group				
Financial assets/liabilities				
Cash and deposits	109,750	1,729	109,750	1,729
Investment	—	15	—	15
ENI Loan Note	—	7,189	—	7,189
Other receivables	1,758	302	1,565	264
Other payables	(151)	(155)	(133)	(137)
Company				
Financial assets/liabilities				
Cash and deposits	**107,080**	**—**	**107,080**	**—**

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

23. EQUITY SHARE CAPITAL

	2005 Number	2005 US$000	2004 Number	2004 US$000
Authorised:				
Common shares with no par value	—	—	Unlimited	N/A
Ordinary shares of US$0.10	200,000,000	20,000	—	—
Ordinary 'A' share of £50,000	1	90	—	—
	200,000,001	20,090	Unlimited	N/A

On incorporation, the authorised share capital of the Company was £50,000 and US$20,000,000 divided into one 'A' share of £50,000 and 200,000,000 ordinary shares of US$0.10 each, two of which were issued credited as fully paid to the subscribers to the Company's memorandum of association.

The balance classified as total share capital includes the total net proceeds (both nominal value and share premium) on issue of the Group and Company's equity share capital, comprising $0.10 ordinary shares. Prior to the Reorganisation on 1 September 2005, the Group common shares had no par value, accordingly all value was classified as share capital.

Allotted, issued and fully paid:	Number	Share capital US$000	Share premium US$000	Total Share capital US$000
Group				
At 1 January 2005	62,685,758	33,047	—	33,047
Warrants and options exercised (i)	12,060,025	9,700	—	9,700
As at 1 September 2005	**74,745,783**	**42,747**	**—**	**42,747**
Reallocation on share re-organisation	—	(35,272)	35,272	—
'A' share issued (iv)	1	90	—	90
Warrants/options exercised (v)	434,375	43	447	490
Issued shares upon AIM admission (vi)	67,368,421	6,737	98,681	105,418
As at 31 December 2005	**142,548,580**	**14,345**	**134,400**	**148,745**
Company				
On incorporation (ii)	2	—	—	—
Share Reorganisation (iii)	(2)	—	—	—
Share Reorganisation (iii)	74,745,783	7,475	—	7,475
'A' share issued (iv)	1	90	—	90
Warrants/options exercised (v)	434,375	43	447	490
Issued shares upon AIM admission (vi)	67,368,421	6,737	98,681	105,418
As at 31 December 2005	**142,548,580**	**14,345**	**99,128**	**113,473**

(i) In the eight months prior to the share Reorganisation on 1 September 2005, 12,060,025 share purchase warrants were converted to ordinary shares of Serica Energy Corporation at prices ranging from Cdn$0.80 to Cdn$1.20.

(ii) On incorporation, the authorised share capital of the Company was £50,000 and US$20,000,000 divided into one 'A' share of £50,000 and 200,000,000 ordinary shares of US$0.10 each, two of which were issued credited as fully paid to the subscribers to the Company's memorandum of association.

The following alterations to the authorised and issued share capital of Serica Energy plc have taken place since its incorporation:

(iii) On 1 September 2005, the Company completed a Reorganisation whereby two subscriber ordinary shares were transferred and the common shares of Serica Energy Corporation were automatically exchanged on a one-for-one basis for ordinary shares of Serica Energy plc, a newly formed company incorporated under the laws of the United Kingdom. In addition, each shareholder of the Corporation received beneficial ownership of part of the 'A' share of Serica Energy plc issued to meet the requirements of public companies under the United Kingdom jurisdiction. 74,745,783 ordinary shares of US$0.10 each were allotted fully paid to the former shareholders in Serica Energy Corporation pursuant to the terms of a share exchange agreement dated 15 June 2005 made between the Company and Serica Energy Corporation.

(iv) On 1 September 2005, there was allotted, paid up as to one quarter of its nominal value, one 'A' share of £50,000 to Serica Energy Corporation as trustee for and on behalf of all of the shareholders of the Company.

(v) From 1 September 2005 until 31 December 2005, 434,375 share purchase warrants and options were converted to ordinary shares at prices ranging from Cdn$0.50 to Cdn$1.80.

(vi) On 13 December 2005, 67,368,421 ordinary shares at £0.95 were issued upon admission to trading on AIM. The proceeds net of expenses are credited to share capital and share premium.

(vii)	**Expiry date**	**Amount**	**Value Cdn$**
Warrants	6 Aug, 2006	6,427,500	7,713,000
	28 Jul, 2006	1,521,876	1,826,251

24. ADDITIONAL CASH FLOW INFORMATION

	1 January 2005 US$000	Cash flow US$000	Non-cash Movements US$000	31 December 2005 US$000
Analysis of Group net debt				
Cash	1,729	(305)	—	1,424
Short-term deposits	—	108,326	—	108,326
	1,729	**108,021**	**—**	**109,750**
Analysis of company net cash				
Cash	—	154	—	154
Short-term deposits	—	106,926	—	106,926
	—	**107,080**	**—**	**107,080**

25. SHARE-BASED PAYMENTS

Share Option Plans

The Company established an option plan in 2005 to develop the interest of Directors, officers, key employees and certain consultants of the Group in the growth and development of the Group by providing them with the opportunity to acquire an interest in the Company and to assist the Company in retaining and attracting executives with experience and ability.

No further options will be granted under the option plan ('Serica Energy Corporation Option Plan') of Serica Energy Corporation ('Serica BVI'). Serica BVI was previously the holding company of the Group but, following the Reorganisation, is now a wholly owned subsidiary of the Company. The Company has agreed to issue ordinary shares to holders of Serica BVI Options already awarded upon exercise of such options in place of the shares in Serica BVI to which they would be entitled. There are currently options outstanding under the Serica BVI Option Plan entitling holders to acquire up to an aggregate of 4,102,500 ordinary shares of the Company.

The Company has granted 696,000 options under the Serica 2005 Option Plan. The Serica 2005 Option Plan will govern all future grants of options by the Company to Directors, officers, key employees and certain consultants of the Group.

The Serica 2005 Option Plan is comprised of two parts, the basic share option plan and a part which constitutes an Enterprise Management Incentive Plan under rules set out by the H.M. Revenue & Customs in the United Kingdom. Options granted under the Serica 2005 Option Plan can be granted, at the discretion of the Board, under one or other of the two parts but, apart from certain tax benefits which can accrue to the Company and its UK employees if options are granted under the part relating to the Serica EMI Plan meeting the conditions of that part of the Serica 2005 Option Plan, all other terms under which options can be awarded under either part are substantially identical.

The Directors intend that the maximum number of ordinary shares which may be utilised pursuant to the Serica 2005 Option Plan will not exceed 10% of the issued ordinary shares of the Company from time to time in line with the recommendations of the Association of British Insurers.

The Company calculated the value of the share-based compensation using Black-Scholes option pricing modes to estimate the fair value of share options at the date of grant. The estimated fair value of options is amortised to expense over the options' vesting period. US$1,013,000 has been charged to the Income Statement in the year ended 31 December 2005 and a similar amount credited to other reserves.

The assumptions made for the options granted during 2005 include a volatility factor of expected market prices of 50%, a weighted average risk-free interest rate of 6%, no dividend yield and a weighted average expected life of options of three years.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in share options during the year:

Serica Energy Corporation option plan	**2005 Number**	**2005 WAEP Cdn$**	**2004 Number**	**2004 WAEP Cdn$**
Outstanding as at 1 January	3,087,500	1.65	—	—
KGO options acquired upon merger	—	—	199,000	0.41
Granted during the year	2,500,000	1.61	3,577,500	1.65
Cancelled during the year	(1,170,000)	1.84	(425,000)	1.81
Exercised	(205,000)	1.43	(249,000)	0.41
Expired during the year			(15,000)	
Outstanding at 31 December	4,212,500	1.58	3,087,500	1.65
Serica 2005 option plan		**£**		**£**
Outstanding as at 1 January	—	—	—	—
Granted during the year	696,000	0.97	—	—
Outstanding at 31 December	696,000	0.97	—	—

26. COMMITMENTS UNDER OPERATING LEASES

Operating lease agreements where the Group is lessee. At 31 December 2005 the Group has entered into commercial leases in respect of rental of office premises, office equipment and motor vehicles. Future minimum rentals payable under non-cancellable operating leases are as follows:

	Group		Company	
	2005	2004	2005	2004
	US$000	US$000	US$000	US$000
Not later than one year	275	153	—	—
After one year but not more than five years	594	93	—	—
	869	**246**	**—**	**—**

27. CAPITAL COMMITMENTS AND CONTINGENCIES

At 31 December 2005, amounts contracted for but not provided in the financial statements for the acquisition of intangible exploration assets amounted to US$nil for the Group and US$nil for the Company. (2004 - US$nil and US$nil respectively).

The Group has obligations to carry out defined work programmes on its oil and gas properties under the terms of the award of rights to these properties as follows:
Year ending 31 December 2006 US$8,324,000
Year ending 31 December 2007 US$1,500,000

The Group has contingent liabilities associated with the payment of VAT claims in Indonesia estimated at US$0.9 million. Any such amounts should, under current law, be recoverable when revenues are generated from future production on the relevant concession.

28. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH DIRECTORS

There are no related party transactions with Directors that require disclosure.

29. POST BALANCE SHEET EVENTS

There have not been any significant events since the balance sheet date.

30. TRANSITION TO IFRS

Following the formation of the Serica BVI through a merger of Petroleum Development Associates (Oil & Gas) Limited (PDA) and Kyrgoil Holding Corporation (KGO) on 29 January 2004, the Group's financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP).

On 1 September 2005, the Company completed a Reorganisation whereby the common shares of Serica Energy Corporation were automatically exchanged on a one-for-one basis for ordinary shares of Serica Energy plc, a newly formed company incorporated under the laws of the United Kingdom. In addition, each shareholder of the Corporation received beneficial ownership of part of the 'A' share of Serica Energy plc issued to meet the requirements of public companies under the United Kingdom jurisdiction

The adoption of IFRS by companies listed on AIM is mandatory for periods beginning after 1 January 2007, with comparative information for the previous year, but earlier adoption is encouraged. The Group has chosen to adopt IFRS to coincide with its listing on AIM in London and henceforth Serica's financial statements will be presented in accordance with IFRS. The transition date is 1 January 2004 and the first year reported under IFRS is the year ended 31 December 2005.

The Company has previously presented its accounts on the basis of Canadian GAAP. The attached information represents an extract from the Company's Canadian GAAP consolidated financial statements for the period ended 31 December 2004 restated to provide a reconciliation to IFRS. This restatement has been prepared on the basis of all IFRS and interpretations issued by the International Accounting Standards Board (IASB) effective for the Group's reporting year ending 31 December 2005, on the assumption that they will be fully endorsed by the European Commission (EC).

A preliminary restatement of results to 30 June 2005 was included in the Admission Document, dated 8 December 2004, related to the admission of Serica's ordinary shares to AIM. Following a further review of guidance on the application of IFRS 6 (Exploration for and Evaluation of Mineral Resources), US$962,000 of costs relating to relinquished licences have been written off in the period prior to 1 January 2004 and is reflected in the opening balance sheet at 1 January 2004.

The general principle on first time adoption of IFRS is that standards in force at the first reporting date should be applied retrospectively. However, when preparing the Group's IFRS balance sheet at 1 January 2004, the date of transition, the following optional exemptions from full retrospective application of IFRS accounting policies have been adopted:

- business combinations – the provisions of IFRS 3 have been applied prospectively from 1 January 2004;

- cumulative foreign exchange differences have been deemed to be nil at 1 January 2004; and

- comparative information in accordance with IAS 32 and IAS 39 has not been presented.

The Group has opted for early adoption of IFRS 6.

30. TRANSITION TO IFRS CONTINUED

Reconciling items between Canadian GAAP and IFRS

Pre-licence write-offs

Under IFRS 6, costs incurred prior to the legal rights to explore an area being obtained may no longer be capitalised as exploration costs. These had previously been held as fixed assets within 'Property, Plant and Equipment' under Canadian GAAP. Costs expensed under IFRS comprise US$60,000 in 2004.

Relinquished licences costs

Costs in respect of relinquished licences expensed under IFRS comprise US$962,000 prior to 1 January 2004.

Reverse acquisition and listing expenses

The US$1,290,000 of transaction costs incurred on the acquisition of KGO in 2004 were expensed in the Income Statement in 2004 in accordance with IFRS.

These had previously been charged directly to retained earnings under Canadian GAAP.

Reclassifications

The classification and description of certain items within the financial statements differs under IFRS:

(i) Exploration costs

These had been included within 'Property, Plant and Equipment' under Canadian GAAP. Under IFRS 6 and IAS 38 exploration costs have been moved to 'Tangible Exploration Assets'.

(ii) Other receivables

In accordance with IAS 1 'Long-term accounts receivable' and 'Deferred charges' have been classified as current 'Other Receivables' in concurrence with its nature.

(iii) Administrative expenses

Items classified as 'Amortisation of deferred charges' and 'Foreign exchange gain/loss' under Canadian GAAP have been included under 'Administrative expenses' under IFRS.

(iv) Taxation

Whereas under Canadian GAAP 'Income tax expense' and 'Future income tax' are separately classified in the Income Statement, these are combined as 'Taxation' under IAS 1. In the Balance Sheet, 'Future income tax' is classified as 'Deferred income tax liabilities'.

(v) Cash flow

The grouping and classification of certain items has been changed to reflect IFRS requirements. Interest received and taxes received have been separately identified.

CONSOLIDATED INCOME STATEMENT

RECONCILING THE TRANSITION FROM CANADIAN GAAP TO IFRS AS AT 31 DECEMBER 2004

	31 December 2004 Canadian GAAP US$000	31 December 2004 Reclassification US$000	31 December 2004 Remeasurement US$000	31 December 2004 IFRS Total US$000
Sales revenue	156	—	—	156
Cost of sales	—	—	—	—
Gross profit	**156**	**—**	**—**	**156**
Administrative expenses	(4,877)	142	—	(4,735)
Reverse acquisition and listing expenses	—	—	(1,290)	(1,290)
Pre-licence expense	—	—	(61)	(61)
Share-based payments	(167)	—	—	(167)
Depreciation, depletion, amortisation	(19)	5	—	(14)
Amortisation of deferred charges	(34)	34	—	—
Release of decommissioning provision	122	—	—	122
Gain on disposal of shareholding	141	—	—	141
Foreign exchange gain	181	(181)	—	—
Operating loss before finance income	**(4,497)**	**—**	**(1,351)**	**(5,848)**
Finance revenue	170	—	—	170
Loss before taxation	**(4,327)**	**—**	**(1,351)**	**(5,678)**
Taxation charge	(2,064)	—	—	(2,064)
Loss for the year	**(6,391)**	**—**	**(1,351)**	**(7,742)**
Loss per ordinary share	**(US$0.13)**			**(US$0.16)**

BALANCE SHEET

RECONCILING THE TRANSITION FROM CANADIAN GAAP TO IFRS AS AT 31 DECEMBER 2004

	31 December 2004 Canadian GAAP US$000	31 December 2004 Reclassification US$000	31 December 2004 Remeasurement US$000	31 December 2004 IFRS Total US$000
Fixed Assets				
Intangible exploration assets	—	11,612	(1,023)	10,589
Goodwill	2,382	—	—	2,382
Property, plant and equipment	11,618	(11,612)	—	6
Long-term accounts receivable	302	(302)	—	—
Other receivables	—	302	—	302
Deferred charges	81	(81)	—	—
	14,383	(81)	(1,023)	13,279
Current Assets				
Inventories	259	—	—	259
Trade and other receivables	1,839	81	—	1,920
Financial assets	7,204	—	—	7,204
Cash and cash equivalents	1,729	—	—	1,729
	11,031	81	—	11,112
Total assets	**25,414**	**81**	**(1,023)**	**24,391**
Current liabilities				
Trade and other payables	(1,315)	—	—	(1,315)
Non-Current liabilities				
Other payables	(155)	—	—	(155)
Deferred income tax liabilities	(4,446)	—	—	(4,446)
Total liabilities	**(5,916)**	**—**	**—**	**(5,916)**
Net assets	**19,498**	**—**	**(1,023)**	**18,475**
Capital and reserves				
Share capital	33,047	—	—	33,047
Other reserves	256	—	—	256
Accumulated deficit	(13,805)	—	(1,023)	(14,828)
Total equity	**19,498**	**—**	**(1,023)**	**18,475**

CONSOLIDATED CASH FLOW STATEMENT

RECONCILING THE TRANSITION FROM CANADIAN GAAP TO IFRS AS AT 31 DECEMBER 2004

Operating activities	31 December 2004 Canadian GAAP US$000	31 December 2004 Reclassification US$000	31 December 2004 IFRS Total US$000
Cash flows from operating activities			
Net loss for the year before taxation	(6,391)	6,391	—
Operating loss	—	(5,848)	(5,848)
Adjustments for:			
Depreciation, depletion and amortisation	19	(5)	14
Amortisation of deferred charges	34	(34)	—
Gain on disposal of shareholding	(141)	—	(141)
Share-based compensation	167	—	167
Release of decommissioning provision	(122)	—	(122)
Foreign exchange gain on investment	(288)	—	(288)
Future income taxes	2,064	(2,064)	—
Changes in working capital	67	11	78
Cash generated from operations	(4,591)	(1,549)	(6,140)
Taxes received	—	168	168
Net cashflow from operations	**(4,591)**	**(1,381)**	**(5,972)**
Cash flows from investing activities			
Interest received	—	30	30
Purchases of property, plant and equipment	(2,623)	2,620	(3)
Purchase of intangible exploration assets	—	(2,559)	(2,559)
Acquisitions, net of cash acquired	(5,400)	1,654	(3,746)
Reverse acquisition	(1,290)	1,290	—
Cash acquired on Kyrgoil acquisition	1,654	(1,654)	—
Proceeds from disposal of investment	410	—	410
Net cash used in investing activities	**(7,249)**	**1,381**	**(5,868)**
Cash proceeds from financing activities			
Proceeds from issue of shares	78	—	78
Proceeds on issue/exercise of warrants	9,239	—	9,239
Net cash from financing activities	**9,317**	**—**	**9,317**
Net decrease in cash and cash equivalents	(2,523)	—	(2,523)
Cash and cash equivalents at 1 January	4,252	—	4,252
Cash and cash equivalents at 31 December	**1,729**	**—**	**1,729**

All of the above are prepared under IFRS.

RECONCILIATION OF EQUITY

RECONCILING THE TRANSITION FROM CANADIAN GAAP TO IFRS AS AT 1 JANUARY 2004

	1 January 2004 Canadian GAAP US$000	1 January 2004 Remeasurement US$000	1 January 2004 IFRS Total US$000
Capital and reserves			
Shareholders equity	13,000	—	13,000
Special warrants	5,327	—	5,327
Other reserves	99	—	99
Accumulated deficit	(6,124)	(962)	(7,086)
Total equity	**12,302**	**(962)**	**11,340**

All of the above are prepared under IFRS.

DIRECTORS, SECRETARY & ADVISORS

Board of Directors

Antony Craven Walker
Chairman of the Board, Chairman of the Remuneration Committee

Paul Ellis*
Chief Executive Officer

Neil Pike
Chairman of the Audit Committee

James Steel
Chairman of the Governance Committee

Christopher Atkinson*
Chief Operating Officer

Christopher Hearne*
Finance Director

Kenneth Pearce
Company Secretary

* Executive Director

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Annual General Meeting
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