# SERICA ENERGY PLC

# FIRST QUARTER 2007
# REPORT TO SHAREHOLDERS

## MANAGEMENT OVERVIEW

Serica is pleased to report that it has continued to build on its 2006 performance with an active first quarter of 2007.

### UK North Sea and Norway

Since the year end, Serica has formally been awarded the new licences in both the UK and Norway that it reported with its full year results. In the UK, Serica was awarded Block 23/16g in the Central North Sea, Block 48/17d in the Southern North Sea and Blocks 113/26b and 113/27b (part) in the East Irish Sea. Serica is the operator of all four blocks and has a 100% interest in each block except 23/16g, where it has a 50% interest.

In Norway, Serica was awarded a 20% interest in two large licences in the 2006 Awards in Predefined Areas ('APA') Licence Round. The licences are contiguous and cover a total area of approximately 1,625 square kilometres in the Egersund Basin, about 120 kilometres southwest of Stavanger. One of the licences contains the undeveloped Bream oil discovery.

Preparations for the 2007 drilling campaign continue. In the UK, Serica has secured the SEDCO 704 semi-submersible drilling rig for Columbus field appraisal wells in Central North Sea Block 23/16f. The rig has been contracted through AGR Peak Group and Serica will have two slots in the programme, with drilling due to commence in Q3 2007. Serica is the operator of the licence and will initially drill a vertical appraisal well. Depending upon the outcome of the vertical well, Serica plans to sidetrack the well to drill and test a horizontal appraisal well. The Columbus appraisal programme follows the success of the Columbus discovery well, announced in December 2006, which tested at a rate of 17.5 million scfd and 1,000 bopd of condensate.

### Indonesia

Serica recently announced the farm-out of a percentage of the Company’s interest in the Biliton PSC. In line with its strategy to spread exploration risk and manage costs, Serica has signed an agreement with a subsidiary of the privately owned oil exploration and production company, Nations Petroleum Company Ltd., to farm-out a 45% interest in the Biliton PSC subject to required regulatory approval. Nations Petroleum will bear the majority of the costs of the two well drilling programme, scheduled to commence in Q3 2007. Serica will remain the operator and will retain a 45% interest in the Biliton PSC. A number of potentially significant prospects have been identified within the PSC, which is located offshore in a virtually unexplored basin in the central Java Sea, and the Seadrill-5 drilling rig is contracted to drill the two exploration wells back-to-back.

Development of the Kambuna field offshore north west Sumatra is proceeding and the Seadrill-5 drilling rig will return to drill the development wells in Q4 2007 following the installation of the well head support structure. First production is expected in late 2008. As reported with the full year results, slippage in the 3D seismic programme together with delays in the receipt of approvals from Pertamina have resulted in this later start-up and an application is being lodged with Pertamina for a revision to the field plan of development.

In the neighbouring Asahan Offshore PSC, Serica has been in discussions with the Indonesian authorities regarding the continuation of exploration activity in the area following the expiry of the initial 10 year exploration period of the PSC in December 2006. To date, in view of the lack of agreement on the commerciality of the PSC, it has not proved feasible to extend the contract and, accordingly, it is likely that the PSC will be formally terminated. The Company has therefore deferred its plans to drill two exploration wells in the PSC this year but has submitted alternative proposals to enable it and its partners to continue exploration work in the area under revised terms.

Geological and geophysical work has commenced on the large Kutai Block awarded to Serica late in 2006 and which lies both offshore and onshore East Kalimantan, adjacent to major fields.

**Forward Programme**

Serica has started 2007 in a strong financial position and continues to make good operational progress in its core areas.

In Q3, Serica will commence its UK and Indonesian drilling programmes with a Columbus appraisal well and a Biliton exploration well and expects to have drilled six wells by the year-end. In its new licences and PSCs the Company will be acquiring and interpreting seismic data and preparing for the 2008 exploration and appraisal drilling campaign. Conceptual development studies for the Columbus field are underway, so that development can be advanced once the results of the appraisal wells are available.

Serica remains very focused on creating shareholder value through its exploration drilling and field development programmes.

The results of Serica's operations detailed below in this MD&A, and in the financial statements, are presented in accordance with International Financial Reporting Standards ("IFRS").

## 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 the attached unaudited interim consolidated financial statements for the period ended 31 March 2007. The interim financial statements for the three months ended 31 March 2007 have been prepared by and are the responsibility of the Company's management and the independent auditors have not performed a review of these financial statements.

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 the UK and Indonesia, with other interests in Norway, Spain, Ireland and Vietnam. The Group has no current oil and gas production, with the main emphasis placed upon its future exploration drilling programmes. In 2007 to date, work has continued on managing its portfolio of interests, accelerating the appraisal of Columbus in the North Sea, advancing the Indonesian development and preparing for the 2007 drilling programme. Further details are noted in the Management Overview.

The results of Serica's operations detailed below in this MD&A, and in the financial statements, are presented in accordance with International Financial Reporting Standards ("IFRS").

**Results of Operations**

Serica generated a loss of US$1.6 million for the three months ended 31 March 2007 ("Q1 2007") compared to a profit of US$1.0 million for the three months ended 31 March 2006 ("Q1 2006"). The Q1 2006 figures have been restated to take account of the revised accounting treatment for share purchase warrants outstanding at 31 March 2006.

| | Q1 2007 US$000 | Q1 (1) 2006 US$000 |
|---|---|---|
| Sales revenue | - | 25 |
| Expenses: | | |
| Administrative expenses | (1,831) | (1,370) |
| Pre-licence costs | (101) | (160) |
| Share-based payments | (499) | (436) |
| Change in fair value of share warrants | - | 1,836 |
| Depletion, depreciation & amortisation | (26) | (10) |
| Operating loss before finance revenue and taxation | (2,457) | (115) |
| Finance revenue | 862 | 1,152 |
| (Loss)/profit before taxation | (1,595) | 1,037 |
| Taxation charge | - | - |
| (Loss)/profit for the period | (1,595) | 1,037 |
| Basic and diluted loss per share | (0.01) | - |
| Basic and diluted earnings per share | - | 0.01 |

(1) As restated – see note 5 of the financial statements

Revenues from oil and gas production are recognised on the basis of the Company's net working interest in its properties and, in 2006, were generated from Serica's 10% interest in the Harimau producing gas and gas condensate field. The Q1 2006 revenues are from discontinued operations following the disposal of the Lematang PSC interest in 2006 which included the Harimau field. Direct operating costs for the field during the period of ownership by the Group were carried by Medco Energi Limited.

Administrative expenses of US$1.8 million for Q1 2007 increased from US$1.4 million for Q1 2006. The increase reflects the growing scale of the Company's activities over the past twelve months.

Pre-licence costs include direct cost and allocated general administrative cost incurred on oil and gas interests prior to the award of licences, concessions or exploration rights.

Share-based payment charges of US$0.5 million reflect share option grants made and compare with US$0.4 million for Q1 2006. The increase is due to share options granted to employees in early 2007.

The change in fair value of share warrants in Q1 2006 is a restatement to reflect evolving interpretation of the treatment of such instruments under the recently adopted International Financial Reporting Standards. This has arisen due to the difference in the denominated currency of the warrants compared to Serica's functional currency. The gain in Q1 2006 was created as the fair value liability of warrants not exercised decreased due to the fall in share price over the quarter. This has no cash impact on reported results. More detail is provided in note 5 of the financial statements.

Negligible depletion, depreciation and amortisation charges in both periods represent office equipment and fixtures and fittings. The costs of petroleum and natural gas properties are not currently subject to such charges pending further evaluation.

Finance revenue, comprising interest income of US$0.9 million for Q1 2007 compares with US$1.2 million for Q1 2006. The decrease from last year is due to the reduction in cash deposit balances held during 2006 as expenditure was incurred on the drilling programmes.

The net loss per share of US$0.01 for Q1 2007 compares to an earnings per share of US$0.01 for Q1 2006.

**Summary of Quarterly Results**

| Quarter ended: | 2007<br>31 Mar<br>US$000 | 2006<br>31 Dec<br>US$000 | 2006<br>30 Sep<br>US$000 | 2006<br>30 Jun<br>US$000 | 2006<br>31 Mar<br>US$000 |
|---|---|---|---|---|---|
| Sales revenue | - | - | - | 36 | 25 |
| (Loss)/profit for the quarter (1) | (1,595) | (13,456) | (3,795) | 1,839 | 1,037 |
| Basic and diluted loss per share US$ (1) | (0.01) | (0.09) | (0.03) | - | - |
| Basic and diluted earnings per share (1) | - | - | - | 0.01 | 0.01 |

(1) As restated for Q1 and Q2 2006 – See note 5 of the financial statements

The fourth quarter 2006 loss includes asset write offs of US$12.7 million in regard to the Asahan Offshore PSC. The second quarter 2006 profit includes a gain of US$2.3 million from the disposal of the 10% interest in the Lematang Block.

**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 March<br>2007<br>US$000 | 31 December<br>2006<br>US$000 |
|---|---|---|
| Current assets: | | |
| Inventories | 6,785 | 6,785 |
| Trade and other receivables | 11,369 | 30,903 |
| Cash and cash equivalents | 72,175 | 77,306 |
| Total Current assets | 90,329 | 114,994 |
| Less Current liabilities: | | |
| Trade and other payables | (11,864) | (30,619) |
| Net Current assets | 78,465 | 84,375 |

At 31 March 2007, the Company had net current assets of US$78.5 million which comprised current assets of US$90.3 million less current liabilities of US$11.8 million, giving an overall reduction in working capital of US$5.9 million in the period. Net outgoings in 2007 covered operational expenses and exploration work.

Inventories principally consist of steel casing for the forthcoming Indonesian drilling programme.

Trade and other receivables at 31 March 2007 include recoverable amounts from partners in Joint Venture operations. Other smaller items include prepayments and sundry UK and Indonesian working capital balances. A large decrease during Q1 2007 from US$30.9 million to US$11.4 million occurred as significant recoverable amounts due from partners in relation to 2006 Joint Venture operations were settled, and the US$5.0 million proceeds due from the Lematang PSC disposal were received.

Trade and other payables chiefly include amounts due to those sub-contractors operating the UK drilling programme, trade creditors and accruals from Indonesia, and also US$2.6 million payable for Norwegian data costs incurred following the recent licence award. Payables arising from the 2006 drilling campaign have been settled in Q1 2007.

Long-Term Assets and Liabilities

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

| | 31 March 2007 US$000 | 31 December 2006 US$000 |
|---|---|---|
| Intangible exploration assets | 45,738 | 40,681 |
| Property, plant and equipment | 316 | 342 |
| Goodwill | 1,200 | 1,200 |
| Long-term other receivables | 668 | 351 |
| Deferred income tax liabilities | (955) | (955) |

During Q1 2007, total investments in petroleum and natural gas properties, represented by intangible exploration assets, increased by US$5.0 million to US$45.7 million. Of the 2007 investments; US$2.7 million was spent in Norway on seismic data, US$0.5 million in the UK on exploration work and G&A, US$2.6 million was spent in Indonesia principally on a Kutai signature bonus, drilling activity preparation, exploration work and G&A on the Biliton and Glagah Kambuna concessions, and US$0.2 million in Spain. US$1.0 million of back costs, received in Q1 2007 as part of the Biliton farm out, have been credited against the capitalised pool of costs.

Property, plant and equipment includes office fixtures and fittings and computer equipment.

Goodwill, representing the difference between the price paid on acquisitions and the fair value applied to individual assets, remained unchanged at US$1.2 million.

Long-term other receivables of US$0.7 million represent value added tax (“VAT”) on Indonesian capital spend, which would be recovered from future production.

Shareholders' Equity

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

| | 31 March 2007 US$000 | 31 December 2006 US$000 |
|---|---|---|
| Total share capital | 157,817 | 157,283 |
| Other reserves | 12,226 | 11,767 |
| Accumulated deficit | (44,651) | (43,056) |

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

Issued share capital during 2007 was increased by the exercise of 493,334 share options of the Company at prices ranging from Cdn$1.11 to Cdn$2.00.

Other reserves include amounts credited in respect of cumulative share-based payment charges, and the amount of the fair value liability of share purchase warrants eliminated upon exercise of those warrants. The increase in other reserves from US$11.8 million to US$12.2 million reflects the amortisation of share-based payment charges in Q1 2007.

Capital Resources

At 31 March 2007, Serica had US$79.3 million of net working capital and no 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 periods/years as follows:

| | US$000 |
|---|---|
| 31 December 2007 | 258 |
| 31 December 2008 | 287 |
| 31 December 2009 | 266 |
| 31 December 2010 | 42 |

At 31 March 2007 the Company had no long-term debt or capital lease obligations. In Q4 2006 the Company contracted the Seadrill-5 jack-up drilling rig for 136 days during 2007 for Indonesia operations at a gross cost of US$26,286,000. The gross obligation existed at 31 March 2007, Serica's net share of these costs will depend on the exact split of the proposed drilling programmes but following the farm-out of a 45% interest in Biliton and current paying interests in the Glagah Kambuna TAC, this is expected to be approximately US$11,100,000. In Q1 2007 the company contracted the Sedco 704 semi-submersible drilling rig for UK operations, specifically the Columbus appraisal wells. The gross obligation under the contract is for 94 days which equates to a value of US$32,200,000, of which Serica's share is expected to be 25%, depending upon the work programme finally agreed with the Company's co-venturers.

In the absence of revenues generated from oil and gas production, Serica will utilise existing financial resources as required to fund its investment programme 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 principal accounting policies are detailed in note 2 to the attached financial statements. International Financial Reporting Standards have been adopted. 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 and 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 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 £1.2 million at the period end reflected a proportion of UK licence commitments and administrative expenditures expected in £ Sterling.

Serica has exposure to interest rate fluctuations; given the level of expenditure plans over 2007/8 this is managed in the short-term through selecting treasury deposit periods of one to six months. 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.

Where Serica operates joint ventures on behalf of partners it seeks to recover the appropriate share of costs from these third parties. The majority of partners in these ventures are well established oil and gas companies. In the event of non payment, operating agreements typically provide recourse through increased venture shares.

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

**Share Options**

As at 31 March 2007, the following director and employee share options were outstanding: -

| | **Expiry Date** | **Amount** | **Exercise cost Cdn$** |
|---|---|---|---|
| Share options | Jun 2008 | 400,000 | 720,000 |
| | Aug 2009 | 100,000 | 110,000 |
| | Feb 2009 | 697,499 | 1,394,998 |
| | May 2009 | 100,000 | 200,000 |
| | Dec 2009 | 325,000 | 325,000 |
| | Jan 2010 | 600,000 | 600,000 |
| | Jun 2010 | 1,200,000 | 2,160,000 |
| | | | **Exercise cost £** |
| | Nov 2010 | 671,000 | 650,870 |
| | Jan 2011 | 1,275,000 | 1,319,625 |
| | May 2011 | 180,000 | 172,800 |
| | June 2011 | 270,000 | 259,200 |
| | Nov 2011 | 120,000 | 134,400 |
| | Jan 2012 | 1,056,000 | 1,082,400 |

## Business Risk and Uncertainties

Serica, like all exploration companies in the oil and gas industry, operates in an environment subject to inherent risks. Many of these 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.

## Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Serica's management, including the Chief Executive Officer and Chief Financial Officer, has reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) as of 31 March 2007. Management has concluded that, as of 31 March 2007, the disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this report was being prepared.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes in the Company's internal controls over financial reporting during the period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## 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 no operating revenues and, during the period ended 31 March 2007 the Company incurred losses of US$1.6 million from continuing operations. At 31 March 2007 the Company held cash and cash equivalents of US$72.2 million.

## Outstanding Share Capital

As at 20 April 2007, the Company had 151,031,289 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 | Christopher Hearne |
| Chief Executive Officer | Finance Director |

1 May 2007

## 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.

**Serica Energy plc**
**Group Income Statement**
for the period ended 31 March 2007

| | Q1 2007 US$000 (Unaudited) | Q1 2006 US$000 (Unaudited) |
|---|---|---|
| **Sales revenue** | - | 25 |
| Cost of sales | - | - |
| **Gross profit** | - | 25 |
| Administrative expenses | (1,831) | (1,370) |
| Pre-licence costs | (101) | (160) |
| Share-based payments | (499) | (436) |
| Change in fair value of share warrants (1) | - | 1,836 |
| Depreciation, depletion and amortisation | (26) | (10) |
| **Operating loss before finance revenue and tax** | (2,457) | (115) |
| Finance revenue | 862 | 1,152 |
| **(Loss)/profit before taxation** | (1,595) | 1,037 |
| Taxation charge for the period | - | - |
| **(Loss)/profit for the period** | (1,595) | 1,037 |
| (Loss)/earnings per ordinary share (US$): | | |
| Basic and diluted LPS | (0.01) | N/A |
| Basic and diluted EPS (1) | N/A | 0.01 |

(1) As restated – See note 5

**Serica Energy plc**
**Consolidated Balance Sheet**

| | Notes | 31 March 2007 US$000 (Unaudited) | 31 December 2006 US$000 (Audited) |
|---|---|---|---|
| Intangible exploration assets | | 45,738 | 40,681 |
| Property, plant and equipment | | 316 | 342 |
| Goodwill | | 1,200 | 1,200 |
| Investments in subsidiaries | | - | - |
| Other receivables | | 668 | 351 |
| | | 47,922 | 42,574 |
| Inventories | | 6,785 | 6,785 |
| Trade and other receivables | | 11,369 | 30,903 |
| Cash and cash equivalents | | 72,175 | 77,306 |
| | | 90,329 | 114,994 |
| TOTAL ASSETS | | 138,251 | 157,568 |
| **Current liabilities** | | | |
| Trade and other payables | | (11,864) | (30,619) |
| **Non-current liabilities** | | | |
| Other payables | | - | - |
| Deferred income tax liabilities | | (955) | (955) |
| TOTAL LIABILITIES | | (12,819) | (31,574) |
| NET ASSETS | | 125,432 | 125,994 |
| Share capital | 3 | 157,817 | 157,283 |
| Other reserves | | 12,266 | 11,767 |
| Accumulated deficit | | (44,651) | (43,056) |
| TOTAL EQUITY | | 125,432 | 125,994 |

**Serica Energy plc**
**Statement of Changes in Equity**
For the period ended 31 March 2007

**Group**

| | Share capital US$000 | Other reserves US$000 | Deficit US$000 | Total US$000 |
|---|---|---|---|---|
| At 1 January 2006 | 148,745 | 4,153 | (28,681) | 124,217 |
| Conversion of warrants | 8,530 | - | - | 8,530 |
| Conversion of options | 35 | - | - | 35 |
| Issue of shares (net) | (27) | - | - | (27) |
| Share-based payments | - | 1,918 | - | 1,918 |
| Loss for the year | - | - | (14,375) | (14,375) |
| Fair value of warrants converted | - | 5,696 | - | 5,696 |
| At 1 January 2007 | 157,283 | 11,767 | (43,056) | 125,994 |
| Conversion of options | 534 | - | - | 534 |
| Share-based payments | - | 499 | - | 499 |
| Loss for the period | - | - | (1,595) | (1,595) |
| At 31 March 2007 | 157,817 | 12,266 | (44,651) | 125,432 |

**Serica Energy plc**
**Consolidated Cash Flow Statement**
For the period ended 31 March 2007

| | Q1 2007 US$000 (Unaudited) | Q1 2006 US$000 (Unaudited) |
|---|---|---|
| Cash flows from operating activities: | | |
| Operating loss | (2,457) | (115) |
| Adjustments for: | | |
| Depreciation, depletion and amortisation | 26 | 20 |
| Share-based payments | 499 | 436 |
| Change in fair value of share warrants | - | (1,836) |
| Changes in working capital | (4,978) | (3,333) |
| Cash generated from operations | (6,910) | (4,828) |
| Taxes received | - | 34 |
| **Net cash outflow from operations** | (6,910) | (4,794) |
| Cash flows from investing activities: | | |
| Interest received | 862 | 1,152 |
| Proceeds from disposals | 5,000 | - |
| Purchases of property, plant and equipment | - | (298) |
| Purchases of intangible exploration assets - net | (4,617) | (828) |
| **Net cash generated/(used) in investing** | 1,245 | 26 |
| Cash proceeds from financing activities: | | |
| Proceeds on exercise of warrants/options | 534 | 119 |
| **Net cash from financing activities** | 534 | 119 |
| Net decrease in cash and cash equivalents | (5,131) | (4,649) |
| Cash and cash equivalents at start of period | 77,306 | 109,750 |
| Cash and cash equivalents at end of period | 72,175 | 105,101 |

**Serica Energy plc**

**Notes to the Unaudited Consolidated Financial Statements**

## 1. Nature and continuance of operations

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 TSXV. The principal activity of the Company is to identify, acquire and exploit oil and gas reserves.

## 2. Accounting Policies

### Basis of Preparation

These unaudited interim consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards following the same accounting policies and methods of computation as the consolidated financial statements for the year ended 31 December 2006. These unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the consolidated financial statements and the notes thereto in the Serica Energy plc annual report for the year ended 31 December 2006.

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.

### Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Serica Energy Corporation, Serica Energy Holdings B.V., 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, Serica Kutei B.V. and Serica Nam Con Son B.V. Together these comprise the "Group".

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

## 3. Equity Share Capital

| | 31 March 2007 Number | 31 March 2007 US$000 | 31 December 2006 Number | 31 December 2006 US$000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| Ordinary shares of US$0.10 | 200,000,000 | 20,000 | 200,000,000 | 20,000 |
| Ordinary 'A' share of £50,000 | 1 | 90 | 1 | 90 |
| | 200,000,001 | 20,090 | 200,000,001 | 20,090 |

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 US$0.10 ordinary shares.

**Allotted, issued and fully paid:**

| **Group** | Number | Share capital US$000 | Share premium US$000 | Total Share capital US$000 |
|---|---|---|---|---|
| At 1 January 2007 | 150,537,956 | 15,144 | 142,139 | 157,283 |
| Options exercised (1) | 493,334 | 49 | 485 | 534 |
| As at 31 March 2007 | 151,031,290 | 15,193 | 142,624 | 157,817 |

(1) From 1 January 2007 until 31 March 2007, 493,334 share options were converted to ordinary shares at prices ranging from Cdn$1.11 to Cdn$2.00.

## 4. Share-Based Payments

Share Option Plans

Following a reorganisation (the "Reorganisation") in 2005, the Company established an option plan (the "Serica 2005 Option Plan") to replace the Serica Energy Corporation Share Option Plan (the "SEC Share Option Plan").

Serica Energy Corporation ("Serica BVI") was previously the holding company of the Group but, following the Reorganisation, is now a wholly owned subsidiary of the Company. Prior to the Reorganisation, Serica BVI issued options under its option plan (the "Serica BVI Option Plan") and following the Reorganisation 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 3,422,499 ordinary shares of the Company. No further options will be granted under the Serica BVI option plan.

The Company has granted 3,717,000 options under the Serica 2005 Option Plan, 3,572,000 of which are currently outstanding. 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 ("EMI 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 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 per cent. of the issued ordinary shares of the Company from time to time, in line with the recommendations of the Association of British Insurers.

In December 2005, 330,000 options were awarded to executive directors exercisable only if certain performance targets are met. The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain market conditions) 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$499,000 has been charged to the income statement in the period ended 31 March 2007 and a similar amount credited to other reserves.

The assumptions made for the options granted during 2005 and 2006 include a volatility factor of expected market price 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 period:

| **Serica BVI option plan** | **Number** | **WAEP Cdn$** |
|---|---|---|
| Outstanding at 31 December 2006 | 3,975,833 | 1.57 |
| Exercised during the period | (493,334) | 1.26 |
| Cancelled during the period | (60,000) | 2.00 |
| Outstanding at 31 March 2007 | 3,422,499 | 1.61 |
| **Serica 2005 Option Plan** | | **£** |
| Outstanding at 31 December 2006 | 2,516,000 | 1.01 |
| Granted during the period | 1,056,000 | 1.02 |
| Outstanding at 31 March 2007 | 3,572,000 | 1.01 |

## 5. Retrospective Restatement

In the 2006 Annual Report, the prior year income statement and balance sheet have been adjusted to reflect differences in accounting for share warrants that were outstanding at 31 December 2005 as a liability, carried at fair value. Previously the warrants were considered to qualify for treatment as equity under IAS 32 Financial Instruments: Presentation. However, precedents now available indicate that, because the conversion proceeds were denominated in Can$, and the company's functional currency is US$, these instruments should have been treated more appropriately as a liability for the period the warrants remained outstanding, with an income statement charge/credit made to reflect the movement in the fair value of the warrants in each relevant period. All warrants were exercised during 2006. The effect of this non cash adjustment on the Group Income statement, Loss per Ordinary Share, Group and Company Balance Sheets, and Group and Company Statements of Changes in Equity is detailed in Note 30 of the 2006 Annual Report.

The impact of this retrospective restatement on the Q1 2006 comparatives in this Q1 2007 Report is set out below:

**Effect on Group Income Statement and Summary of Quarterly Results in Managements Discussion and Analysis**

**(Loss)/profit for the quarter**

| Quarter ended: | 31 Mar | 30 Jun |
|---|---|---|
| **2006** | | |
| (Loss)/profit for the quarter previously reported (US$000) | (799) | 2,521 |
| Change in fair value of warrants (US$000) | 1,836 | (682) |
| Profit for the quarter restated (US$000) | 1,037 | 1,839 |

**(Loss)/earnings per share**

| **2006** | | |
|---|---|---|
| Basic and diluted loss per share previously reported (US$) | (0.01) | - |
| Basic and diluted earnings per share previously reported (US$) | - | 0.02 |
| Change in fair value of warrants (US$) | 0.02 | (0.01) |
| Basic and diluted earnings per share as restated (US$) | 0.01 | 0.01 |