

Serica Energy plc

Second Quarter 2006

Report to Shareholders

## MANAGEMENT OVERVIEW

During the second quarter of 2006, Serica made excellent progress by securing additional drilling rigs for its 2006-07 drilling programme in both Indonesia and the North Sea.

Serica will use the Seadrill 5 jack-up drilling rig in Indonesia for four wells offshore north Sumatra early in 2007 and the Ensco 92 jack-up to test the Oak prospect in UK North Sea Block 54/1b later this year. These wells are in addition to the three exploration wells already scheduled to be drilled in the Biliton PSC in Indonesia and the well on the Block 23/16f Columbus prospect in the UK North Sea. Serica has a large portfolio of exploration prospects and will continue to source drilling equipment as appropriate opportunities appear.

In Indonesia the Seadrill 5 rig is expected to commence a continuous four-well programme in the first quarter of 2007 on Serica's Glagah Kambuna and Asahan Blocks offshore north Sumatra. The programme includes development wells and work-overs.

The Kambuna Field Plan of Development has already received government approval and Serica's Board of Directors is expected to give full project sanction in the near future. The fast track development includes a dry wellhead tower and FPSO (Floating Production Storage & Offloading vessel) with a gas export pipeline to shore to give first production in 2008 at initial rates of approximately 50 million cubic feet of gas per day and 5,000 barrels of condensate per day. There is a significant gas market in North Sumatra and Serica expects a gas market shortfall in the region of around 100 to 200 mmscfd by 2010. The Company is currently negotiating gas sales contracts for both the Kambuna and the Tanjung Perling Fields. The full extent of the Kambuna Field is yet to be defined and a large 3D seismic survey is scheduled to commence in September, covering the Kambuna Field and adjacent areas, to delineate field extent and evaluate other prospects.

The Plan of Development for the Tanjung Perling Field in the neighbouring Asahan offshore PSC was submitted to the Government in June. Serica is operator of both the Glagah Kambuna TAC and the Asahan Offshore PSC with working interests of 65% and 55% respectively.

In the Biliton PSC, plans for the Company's three-well exploration programme are being finalised. A rig has been identified for early 2007 drilling and a rig sharing agreement is being negotiated. Serica has a 90% interest and is operator of Biliton.

In June, Serica announced the sale of its 10% working interest in the Lematang PSC, subject to Indonesian government approval, for US\$5 million in cash. This interest, which includes a share in the nearly depleted Harimau oil and gas field and in the undeveloped Singa gas field, was Serica's only non-operated asset and was no longer essential to the Company due to the small level of working interest held.

In the UK North Sea, Serica now anticipates that in the fourth quarter this year it will be drilling both the Block 23/16f Columbus prospect in the Central North Sea and the Block 54/1b Oak prospect in the Southern Gas Basin. Serica holds a 50% working interest in Columbus and a 100% interest in Oak. Offers to farm-in to the Oak prospect are being considered by the Company.

Serica has secured the use of the Global Sante Fe 140 semi-submersible rig to drill Columbus and will use the ENSCO 92 jack-up rig to drill Oak.

The Company has also been active in generating new ventures as part of its strategy to expand into areas in which Serica has existing technical knowledge.

Serica has been conditionally awarded Block 06/94 in the Nam Con Son Basin offshore south Vietnam. Serica and its two partners, Lundin Petroleum and Pearl Energy, will each have a 33.33% interest in the Block, which covers an area of around 4100 square kilometres and will be operated by Pearl.

In Norway, Serica has been pre-qualified by the Norwegian authorities to hold oil and gas exploration and production licences on the Norwegian Continental Shelf and is evaluating the acreage on offer in the 2006 APA Round that closes in September.

Serica has also applied for exploration licences in Ireland and in the UK 24<sup>th</sup> Round of offshore licensing.

Serica is now well placed to exploit its potential and generate growth for shareholders. The Company has an active exploration, appraisal and development drilling programme in Indonesia and the UK North Sea and is fast tracking its development projects in Indonesia. This is an extensive operational programme for 2006-07 and Serica has the required financial and management strength to carry it out.

## **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") contains information up to and including 21 July 2006 and should be read in conjunction with the attached unaudited interim consolidated financial statements for the period ended 30 June 2006. The interim financial statements for the three and six months ended 30 June 2006 have been prepared by the Company and are the responsibility of the Company's management. The interim financial statements for the six months ended 30 June 2006 and 2005 have been reviewed by the Company's auditors.

References to the "Company" and the "Group" 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 no current oil and gas production, following the disposal of its Harimau Field interest, with the main emphasis placed upon its future exploration drilling programmes and near term developments. During the first half 2006, work has continued on managing its portfolio of interests, advancing the Indonesian developments and preparing for the 2006-07 drilling programme. Further details are noted in the Management Overview.

The results of Serica's operations are detailed below. Serica has adopted International Financial Reporting Standards ("IFRS") for its financial statements for the year ended 31 December 2005 with a transition date of 1 January 2004. The first year reported under IFRS was the year ended 31 December 2005, and the results in this MD&A and the financial statements are presented in accordance with IFRS. Accordingly, Q1 and Q2 2005 comparatives have been restated from Canadian Generally Accepted Accounting Principles ("GAAP") to comply with IFRS.

## Results of Operations

Serica generated a profit of US\$2.5 million for the three months ended 30 June 2006 ("Q2 2006") compared to a loss of US\$1.5 million for the three months ended 30 June 2005 ("Q2 2005"). The Q2 2006 profit includes a gain of US\$2.2 million from the disposal of the interest in Lematang and US\$0.04 million revenue from that operation.

	2006		2005	
	Q2	Q1	Q2	Q1
	US\$000	US\$000	US\$000	US\$000
Sales revenue	36	25	32	31
Expenses:				
Administrative expenses	(1,343)	(1,322)	(1,061)	(1,113)
Foreign exchange gain/(loss)	890	(48)	(600)	(24)
Pre-licence costs	(414)	(160)	(350)	(288)
Share-based payments	(533)	(436)	(383)	(78)
Depletion, depreciation & amortisation	(18)	(10)	(4)	(4)
Operating loss before finance revenue and taxation	(1,382)	(1,951)	(2,366)	(1,476)
Profit on disposal	2,187	-	-	-
Finance revenue	1,210	1,152	101	82
Profit/(loss) before taxation	2,015	(799)	(2,265)	(1,394)
Taxation credit/(charge)	506	-	759	(41)
Profit/(loss) for the period	2,521	(799)	(1,506)	(1,435)

Revenues from oil and gas production are recognised on the basis of the Company's net working interest in its properties and throughout each period were generated from Serica's 10% interest in the Harimau producing gas and gas condensate field. These revenues are from discontinued operations following the disposal of the Lematang PSC interest. Direct operating costs for the field during these periods were carried by Medco Energi Limited.

Administrative expenses of US\$1.3 million for Q2 2006 remained at a consistent level with Q1 2006 and increased from US\$1.1 million for the same period last year. The increase from 2005 reflects the growing scale of the Company's activities over the past twelve months.

A significant foreign exchange gain of US\$0.9 million was earned in Q2 2006. This chiefly arose from the increase in US\$ equivalent value of pounds sterling cash deposits held, as the pound strengthened against the dollar during the quarter. The foreign exchange loss of US\$0.6 million in the equivalent period in 2005 was mainly due to the strengthening of the US dollar compared to sterling in that quarter and its consequent impact on the sterling denominated ENI bond held at that time.

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. The increase in the charge from US\$0.2 million in Q1 2006 to US\$0.4 million in Q2 2006 represents a greater focus on the UK 24<sup>th</sup> Round licence applications, Norway and Ireland.

Share-based payment costs of US\$0.5 million reflect share options granted and compare with a cost of US\$0.4 million for Q2 2005 and US\$0.4 million for Q1 2006. The increase is due to share options granted in the second half of 2005 and early 2006 as the management team was built up.

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

A profit on disposal of US\$2.2 million was generated on the sale of the 10% interest in the Lematang PSC to Lundin Petroleum AB for US\$5 million.

Finance revenue, comprising interest income of US\$1.2 million, for Q2 2006 compares with US\$0.1 million for Q2 2005 and US\$1.1 million for Q1 2006. The increase from last year is due to the significant cash deposit balances held following the AIM listing and associated fund raising in December 2005.

The taxation credit of US\$0.5 million arises from the release of the deferred tax liability attached to the Lematang PSC.

### Summary of Quarterly Results

Quarter ended:	2006 30 Jun	2006 31 Mar	2005 31 Dec	2005 30 Sep	2005 30 Jun	2005 31 Mar
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Sales revenue	36	25	25	36	32	31
Profit/(loss) for the quarter	2,521	(799)	(403)	(775)	(1,506)	(1,435)
Basic and diluted loss per share US\$	-	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)
Basic earnings per share US\$	0.02	-	-	-	-	-
Diluted earnings per share US\$	0.02	-	-	-	-	-

## Working Capital, Liquidity and Capital Resources

### Current Assets and Liabilities

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

	30 June 2006 US\$000	31 March 2006 US\$000	31 December 2005 US\$000
Current assets:			
Inventories	681	878	878
Trade and other receivables	6,241	1,756	2,106
Cash and cash equivalents	102,430	105,101	109,750
Total Current assets	109,352	107,735	112,734
Less Current liabilities:			
Trade and other payables	(3,875)	(3,858)	(7,136)
Net Current assets	105,477	103,877	105,598

At 30 June 2006, the Company had net current assets of US\$105.5 million which comprised current assets of US\$109.4 million less current liabilities of US\$3.9 million, giving an overall increase in working capital of US\$1.6 million in the three month period.

Inventories fell by US\$0.2 million to US\$0.7 million in Q2 2006 following the disposal of the interest in the Lematang PSC.

Trade and other receivables at 30 June 2006 include the US\$5.0 million proceeds due from the Lematang PSC disposal which, combined with a partial offset of disposed working capital assets, largely explains the rise of US\$4.4 million to US\$6.2 million in Q2 2006. Other smaller items include prepayments and sundry UK and Indonesia working capital balances.

In addition, US\$2.3 million was received during the period from the exercise of warrants. As at 30 June 2006, a further US\$6.1 million is expected in respect of the outstanding warrants which expire 6 August 2006.

Net cash outgoings in Q2 2006 covered a US\$3 million payment to PT Gunakarsa Glagah-Kambuna Energi for their 10% interest in the Glagah Kambuna TAC, operational expenses and exploration work. These were partially offset by US\$1.2 million of interest income received in the quarter.

Trade and other payables include a further US\$1.5 million payable in respect of the Q2 2006 acquisition of an additional 10% interest in the Glagah Kambuna TAC. Significant trade and other payables balances in relation to the 2005 drilling programme and the AIM listing were settled in Q1 2006.

### Long-Term Assets and Liabilities

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

	30 June 2006 US\$000	31 March 2006 US\$000	31 December 2005 US\$000
Intangible exploration assets	28,102	24,419	23,591
Goodwill	1,877	2,382	2,382
Property, plant and equipment	304	304	26
Long-term other receivables	2,003	2,129	1,758
Long-term other payables	-	(151)	(151)
Deferred income tax liabilities	(1,631)	(2,137)	(2,137)

During Q2 2006, total investments in petroleum and natural gas properties, represented by intangible exploration assets, increased by US\$3.7 million to US\$28.1 million. This increase was generated from US\$5.7 million of new spend, less US\$2.0 million of exploration assets disposed of with the Lematang PSC. Of the Q2 2006 additions, US\$4.5 million was spent on the 10% additional interest in the Glagah Kambuna TAC, US\$0.8 million on exploration work and G&A on the Biliton, Asahan and Glagah Kambuna concessions in Indonesia, and US\$0.4 million on exploration work and G&A in the UK.

Goodwill, representing the difference between the price paid on acquisitions and the fair value applied to individual assets, fell by US\$0.5 million to US\$1.9 million following the Lematang disposal.

Long-term other receivables of US\$2.0 million represent value added tax ("VAT") on Indonesian capital spend which is expected to be recovered once the fields commence production.

Long-term other payables at 31 March 2006 comprised VAT payable in Indonesia. This liability was cleared following the Lematang PSC disposal.

Deferred income tax liabilities fell by US\$0.5 million in Q2 2006 to US\$1.6 million as the liability associated with the Lematang PSC was removed.

### Shareholders' Equity

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

	30 June 2006 US\$000	31 March 2006 US\$000	31 December 2005 US\$000
Total share capital	151,119	148,864	148,745
Other reserves	2,238	1,705	1,269
Accumulated deficit	(17,225)	(19,746)	(18,947)

Total share capital includes the total net proceeds from share issues, comprising both nominal value and any premium.

Issued share capital during Q1 2006 was increased by the exercise of 121,250 warrants and share options of the Company at prices ranging from Cdn\$1.00 to Cdn\$1.20. Issued share capital during Q2 2006 was increased by the exercise of 2,128,701 warrants of the Company at a price of Cdn\$1.20.



The increase in other reserves from US\$1.3 million to US\$1.7 million in Q1 2006 and from US\$1.7 million to US\$2.2 million in Q2 2006 reflects the amortisation of share options.

### Capital Resources

At 30 June 2006, Serica had US\$105.5 million of net working capital and no short or 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 period/years as follows:

	US\$000
Period ended 31 December 2006	138
Year ended 31 December 2007	198
Year ended 31 December 2008	183
Year ended 31 December 2009	177
Year ended 31 December 2010	36

The Company had no long-term debt or capital lease obligations. The Company has a contract covering the provision of drilling-related services and equipment in connection with the Indonesian drilling programme. As part of this, Serica will acquire up to US\$7.0 million of steel casing. The first tranche is expected to be acquired during Q3 2006. This is contracted for but not provided in the Q2 2006 results.

Until revenues are generated from its planned field developments, Serica will utilise existing financial resources as required to fund its investment programme and ongoing operations. The Company will continue to review other financing alternatives, including debt facilities, in order to optimise its financial structure.

### Off-balance Sheet Arrangements

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

### Critical Accounting Estimates

The accounting policies are summarised in note 2 to the attached financial statements and full details of the Company's accounting policies are included in the Serica Energy plc annual report for the year ended 31 December 2005. There have been no changes in accounting policies during the period, and following the adoption of International Financial Reporting Standards ("IFRS") for the 2005 audited financial statements, the Q1 and Q2 2005 comparative results reported have been restated from Canadian GAAP to IFRS. 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 in 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 £8.2

million at period-end reflected a proportion of UK licence commitments and administrative expenditures expected in pounds 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 2006-07 this is managed in the short-term through selecting treasury deposit periods of one to six months.

There is currently no sales revenue and therefore no 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 30 June 2006, the following warrants and options were outstanding:

	<b>Expiry Date</b>	<b>Amount</b>	<b>Value Cdn\$</b>
Warrants	6 Aug 2006	5,739,425	6,887,310
Share options	Aug 2007	400,000	444,000
	Jun 2008	400,000	720,000
	Aug 2009	100,000	111,000
	Feb 2009	877,500	1,895,000
	May 2009	100,000	200,000
	Dec 2009	325,000	365,000
	Jan 2010	600,000	600,000
	Jun 2010	1,300,000	2,340,000
			<b>Value £</b>
	Nov 2010	696,000	675,120
	Jan 2011	1,395,000	1,443,825
	May 2011	180,000	172,800
	Jun 2011	270,000	259,200

### **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.

### **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 revenue and, during the three month period ended 30 June 2006, the Company generated a profit of US\$0.3 million from continuing operations. At 30 June 2006, the Company held cash and cash equivalents of US\$102.4 million.

## **Outstanding Share Capital**

As at 21 July 2006, the Company had 146,683,530 ordinary shares issued and outstanding and 157,181,456 on a fully diluted basis.

## **Additional Information**

Additional information relating to Serica can be found on the Company's website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com)

Approved on Behalf of the Board

Paul Ellis  
Chief Executive Officer

Christopher Hearne  
Finance Director

3 August 2006

## **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 there from.

The TSX Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this release.

To receive Company news releases via email, please contact [heather@chfir.com](mailto:heather@chfir.com) and specify "Serica press releases" in the subject line.

**Serica Energy plc**  
**Group Income Statement**

Unaudited		Three months ended 30 June 2006 US\$000	Three months ended 30 June 2005 US\$000	Six months ended 30 June 2006 US\$000	Six months ended 30 June 2005 US\$000
	Notes				
<b>Sales revenue</b>		36	32	61	63
Cost of sales		-	-	-	-
<b>Gross profit</b>		36	32	61	63
Administrative expenses		(1,343)	(1,061)	(2,665)	(2,174)
Foreign exchange gain/(loss)		890	(600)	842	(624)
Pre-licence costs		(414)	(350)	(574)	(638)
Share-based payments		(533)	(383)	(969)	(461)
Depreciation, depletion & amortisation		(18)	(4)	(28)	(8)
<b>Operating loss before finance revenue and tax</b>		(1,382)	(2,366)	(3,333)	(3,842)
Profit on disposal	6	2,187	-	2,187	-
Finance revenue		1,210	101	2,362	183
<b>Profit/(loss) before taxation</b>		2,015	(2,265)	1,216	(3,659)
Taxation credit for the period		506	759	506	718
<b>Profit/(loss) for the period</b>		2,521	(1,506)	1,722	(2,941)
Earnings per ordinary share (US\$):					
Basic and diluted loss per share		-	(0.02)	-	(0.02)
Basic earnings per ordinary share		0.02	-	0.01	-
Diluted earnings per ordinary share		0.02	-	0.01	-

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

		30 June 2006 US\$000 (Unaudited)	31 March 2006 US\$000 (Unaudited)	31 December 2005 US\$000 (Audited)
	Notes			
Intangible exploration assets		28,102	24,419	23,591
Goodwill		1,877	2,382	2,382
Property, plant and equipment		304	304	26
Other receivables		2,003	2,129	1,758
		<u>32,286</u>	<u>29,234</u>	<u>27,757</u>
Inventories		681	878	878
Trade and other receivables		6,241	1,756	2,106
Cash and cash equivalents		102,430	105,101	109,750
		<u>109,352</u>	<u>107,735</u>	<u>112,734</u>
<b>TOTAL ASSETS</b>		<u>141,638</u>	<u>136,969</u>	<u>140,491</u>
<b>Current liabilities</b>				
Trade and other payables		(3,875)	(3,858)	(7,136)
<b>Non-current liabilities</b>				
Other payables		-	(151)	(151)
Deferred income tax liabilities		(1,631)	(2,137)	(2,137)
<b>TOTAL LIABILITIES</b>		<u>(5,506)</u>	<u>(6,146)</u>	<u>(9,424)</u>
<b>NET ASSETS</b>		<u>136,132</u>	<u>130,823</u>	<u>131,067</u>
Share capital	4	151,119	148,864	148,745
Other reserves		2,238	1,705	1,269
Accumulated deficit		(17,225)	(19,746)	(18,947)
<b>TOTAL EQUITY</b>		<u>136,132</u>	<u>130,823</u>	<u>131,067</u>

**Serica Energy plc**  
**Statement of Changes in Equity**  
For the period ended 30 June 2006

**Group**

	Share capital US\$000	Other reserves US\$000	Deficit US\$000	Total US\$000
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 1 January 2006	148,745	1,269	(18,947)	131,067
Conversion of warrants	119	-	-	119
Share-based payments	-	436	-	436
Loss for the period	-	-	(799)	(799)
At 31 March 2006 (unaudited)	148,864	1,705	(19,746)	130,823
Conversion of warrants	2,282	-	-	2,282
Share issue costs	(27)	-	-	(27)
Share-based payments	-	533	-	533
Profit for the period	-	-	2,521	2,521
At 30 June 2006 (unaudited)	151,119	2,238	(17,225)	136,132

**Serica Energy plc**  
**Consolidated Cash Flow Statement**

Unaudited	Three months ended 30 June 2006 US\$000	Three months ended 30 June 2005 US\$000	Six months ended 30 June 2006 US\$000	Six months ended 30 June 2005 US\$000
Cash flows from operating activities:				
Operating loss	(1,382)	(2,366)	(3,333)	(3,842)
Adjustments for:				
Depreciation, depletion and amortisation	18	4	28	8
Share-based payments	533	383	969	461
Changes in working capital	(1,011)	1,547	(4,334)	2,435
Cash generated from operations	(1,842)	(432)	(6,670)	(938)
Taxes received	-	-	34	-
<b>Net cash flow from operations</b>	<b>(1,842)</b>	<b>(432)</b>	<b>(6,636)</b>	<b>(938)</b>
Cash flows from investing activities:				
Disposals - Cash disposed	(51)	-	(51)	-
Interest received	1,210	21	2,362	103
Purchases of property, plant and equipment	(8)	(10)	(306)	(10)
Purchase of intangible exploration assets	(4,235)	(2,439)	(5,063)	(3,486)
<b>Net cash used in investing</b>	<b>(3,084)</b>	<b>(2,428)</b>	<b>(3,058)</b>	<b>(3,393)</b>
Cash proceeds from financing activities:				
Proceeds on exercise of warrants/options	2,255	785	2,374	9,679
<b>Net cash from financing activities</b>	<b>2,255</b>	<b>785</b>	<b>2,374</b>	<b>9,679</b>
<b>Cash and cash equivalents</b>				
Net (decrease)/increase	(2,671)	(2,075)	(7,320)	5,348
Amount at start of period	105,101	9,152	109,750	1,729
Amount at end of period	<b>102,430</b>	<b>7,077</b>	<b>102,430</b>	<b>7,077</b>

## **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 and Wales. The Company's ordinary shares are traded on the Alternative Investment Market of the London Stock Exchange ("AIM") and the Canadian TSX Venture Exchange. The principal activity of the Company is to identify, acquire and subsequently exploit oil and gas reserves primarily in Asia and Europe.

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. 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**

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 2005. 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 2005.

New accounting standards:

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except for the adoption of the following mandatory standards for annual periods beginning on or after 1 January 2006:

Amendment to IAS 19 'Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures';

Amendment to IAS 39 'Financial Instruments: Recognition and Measurement';

IFRIC 4 'Determining Whether an Arrangement Contains a Lease';

IFRIC 5 'Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'.

The adoption of these did not affect the Group's results of operations or financial position.

The financial statements are unaudited but have been reviewed by Ernst & Young LLP and their report is set out below.

The Group 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, 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.

## 3. 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 table presents revenue and profit information regarding the Group's geographical segments for the six months ended 30 June 2006.

	Indonesia US\$000	UK US\$000	Spain US\$000	Total US\$000
Revenue	61	-	-	61
Net income/(loss)	2,433	(655)	(56)	1,722

## 4. Equity Share Capital

	30 June 2006 Number	30 June 2006 US\$000	31 December 2005 Number	31 December 2005 US\$000
<b>Authorised:</b>				
Common shares with no par (1)	-	-	-	-
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
	<u>200,000,001</u>	<u>20,090</u>	<u>200,000,001</u>	<u>20,090</u>

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.

<b>Allotted, issued and fully paid:</b>		Share	Share	Total
<b>Group</b>	Number	capital	premium	Share capital
		US\$000	US\$000	US\$000
At 1 January 2006	142,548,580	14,345	134,400	148,745
Warrants/options exercised (2)	121,250	12	107	119
As at 31 March 2006	<u>142,669,830</u>	<u>14,357</u>	<u>134,507</u>	<u>148,864</u>
Warrants/options exercised (3)	2,128,701	213	2,042	2,255
As at 30 June 2006	<u>144,798,531</u>	<u>14,570</u>	<u>136,549</u>	<u>151,119</u>

(1) Prior to the reorganisation on 1 September 2005, the Group's common shares had no par value, accordingly all value was classified as share capital.

(2) From 1 January 2006 until 31 March 2006, 121,250 share purchase warrants and options were converted to ordinary shares at prices ranging from Cdn\$1.00 to Cdn\$1.20.

(3) From 1 April 2006 until 30 June 2006, 2,128,701 share purchase warrants were converted to ordinary shares at a price of Cdn\$1.20.

## 5. Share-Based Payments

### Share Option Plans

Following a 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 was previously the holding company of the Group, but is now a wholly owned subsidiary of the Company. The Serica 2005 Option Plan will govern all future grants of options by the Company and no further options will be granted under the SEC Share Option Plan. Existing options under the SEC Share Option Plan entitle holders to acquire ordinary shares of the Company.

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 share-based compensation using a Black-Scholes option pricing model to estimate the fair value of share options at the date of grant. The estimated fair value of an option is amortised to expense over its vesting period. US\$436,000 and US\$533,000 has been charged to the income statement in the periods ended 31 March 2006 and 30 June 2006 respectively. Similar amounts have been 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:

<b><u>SEC Share Option Plan</u></b>	<b>Number</b>	<b>WAEP Cdn\$</b>
Outstanding at 31 December 2005	4,212,500	1.58
Cancelled during the period	(110,000)	1.27
Outstanding at 31 March 2006 and 30 June 2006	4,102,500	1.59
<b><u>Serica 2005 Option Plan</u></b>		<b>£</b>
Outstanding at 31 December 2005	696,000	0.97
Granted during the period	1,395,000	1.03
Outstanding at 31 March 2006	2,091,000	1.01
Granted during the period	450,000	0.96
Outstanding at 30 June 2006	2,541,000	1.00

## 6. Asset Acquisitions and Disposals

Acquisitions:

On 28 April 2006, the Group acquired an additional 10% interest in the Glagah Kambuna TAC from PT Gunakarsa Glagah-Kambuna Energi for US\$4.5 million. Following receipt of the required regulatory approvals, Serica's working interest in the block will increase to 65%.

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

	Book value US\$000	Fair value adjustment US\$000	Preliminary fair value US\$000
Intangible exploration assets	-	4,500	4,500
Working capital	-	-	-
	-	4,500	4,500

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.

Disposals:

On 13 June 2006 the Group concluded an agreement for the sale of its 10% interest in the Lematang Production Sharing Contract, onshore south Sumatra, to Lundin Petroleum AB ('Lundin Petroleum') for US\$5 million in cash subject to the required partner and Indonesian government approvals. The block includes the nearly depleted Harimau gas field and the Singa gas field development project.

The disposal resulted in a profit of US\$2.2 million.

## 7. Taxation

The major components of income tax in the consolidated income statement are:

	For the six months ended 30 June	
	2006 US\$000	2005 US\$000
Current income tax charge	Nil	Nil
Deferred income tax credit	506	718

The book gain on sale of the Lematang PSC is sheltered from tax by historic costs not reflected in the book value, indexation, and current UK tax losses elsewhere in the group.

The 2006 deferred tax credit arises from the release of the deferred tax liability attached to the Lematang PSC.

## 8. Publication of Non-Statutory Accounts

The financial information contained in this interim statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the full preceding year is based on the statutory accounts for the financial year ended 31 December 2005. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

This interim statement will be made available at the Company's registered office at 52 Bedford Row, London WC1R 4LR and on its website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com)

## **Independent Review Report to Serica Energy plc**

### **Introduction**

We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Cash flow, and the related notes 1 to 8. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company having regard to guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report as required by the AIM Rules issued by the London Stock Exchange and the rules of the TSX Venture Exchange.

### **Review work performed**

We conducted our review having regard to the guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

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3 August 2006