Serica Energy plc

Third Quarter 2006

Report to Shareholders

MANAGEMENT OVERVIEW

Drilling Operations

Serica recently commenced drilling two exploration wells in the UK North Sea. On 15 October 2006 Serica spudded an exploration well to test the Oak prospect using the ENSCO 92 jack-up and on 28 October 2006 Serica spudded an exploration well to test the Columbus prospect using the semi-submersible GlobalSantaFe Rig 140.

The Oak prospect is located in UK North Sea Block 54/1b in the Southern Gas Basin. Well 54/1b-6 is targeting the Permian-age Leman Sandstone reservoir at a depth of around 7,500 feet and drilling operations are scheduled to take about 30 days. Serica is the operator of the block and the well is being drilled under a contract with Peak Well Management Limited. As part of its strategy to spread exploration risk and manage costs, Serica reduced its interest in the block from 100% to 50% through the farm out of a 50% interest to Centrica Resources Limited ("Centrica"), a wholly-owned subsidiary of Centrica plc, in consideration for Centrica bearing 100% of the costs of drilling the Oak well up to the point where the total costs have reached £8.5 million or a decision to test the well has been made, whichever occurs first.

The Columbus prospect is located in UK Central North Sea Block 23/16f. The Columbus well 23/16f-11 is targeting the Paleocene-age Forties Sandstone reservoir at a depth of around 9,700 feet and drilling operations are scheduled to take about 30 days. Serica has a 50% interest and is operator of the block. The well will be drilled by Applied Drilling Technology Inc. a division of GlobalSantaFe Corporation, under a contract with Serica's partner in Block 23/16f, Endeavour Energy UK Limited.

In Indonesia Serica has a drilling programme of at least six wells planned for 2007.

Serica has contracted the SeaDrill 5 jack-up drilling rig for 136 days during 2007. In the Glagah Kambuna Technical Assistance Contract (TAC) and adjacent Asahan Offshore Production Sharing Contract (PSC) the Company is preparing to drill four wells and to carry out one workover.

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, the Company has finalised plans for a two or three well exploration programme using the GlobalSantaFe Rig 136. A rig sharing agreement has been concluded with Total E & P Indonesie and Serica will drill these wells in mid 2007. Serica has a 90% interest and is operator of Biliton.

Field Development

In the Glagah Kambuna TAC, Serica is preparing to develop the Kambuna Field on behalf of its partners and the Indonesian state oil and gas company, PT Pertamina Persero ("Pertamina"). The first production from the field remains targeted for 2008 at initial rates of approximately 50 million cubic feet per day of gas and 5,000 barrels per day of condensate.

Engineering design studies for the gas export pipeline are being carried out by Wood Group and the project schedule is being finalized with a view to full project sanction being given prior to year end. Natural Gas, Butane and Propane will be sold into the Medan area in north Sumatra where there is a growing shortage of gas for power and industry. Condensate (hydrocarbon liquids separated from the gas and sold as oil) will be stored in a Floating Production, Storage and Offtake vessel (FPSO) and loaded into shuttle tankers offshore for sale to international markets.

In the adjacent Asahan Offshore PSC, the Indonesian oil industry regulatory authority ("BPMigas") has requested further technical information with respect to the marginal Tanjung Perling Field, which Serica has proposed to develop as an incremental project to the Kambuna Field. There may be insufficient time to satisfy the request of the regulatory authority prior to 16th December 2006, when the exploration period of the PSC would otherwise expire. Serica and its partners are holding constructive discussions with BPMigas to agree a mutually satisfactory means to bring gas from the Asahan Offshore PSC to market and ensure continuing operations on the block. These discussions include the proposed drilling of wells planned for the Asahan PSC in 2007 as part of the Company's drilling operations.

New Ventures

The Company continues to be successful in generating new venture opportunities in areas in which Serica has existing technical knowledge.

Following the award of a PSC for Block 06/94 in the Nam Con Son Basin in Vietnam in late July, in the 2006 Irish Offshore Licensing Round Serica was awarded a Licence covering Blocks 27/4, 27/5 (part block) and 27/9 which covers an area of approximately 611 square kilometres in the Slyne Basin off the west coast of Ireland. Serica is the operator and will hold a 100% interest in the Licence.

Serica has also made applications for new offshore licences in the UK, Indonesia and Norway and expects to hear the results of these applications by the end of this year.

Outlook

Serica now has a substantial portfolio of existing and new exploration and development drilling prospects and is in an excellent position to generate value for shareholders.

The Company's drilling programme is now underway and, by the end of the year, the results of both the Oak and Columbus exploration wells will be known.

Serica has a major operational programme for 2006-7 and has the financial and management capability to carry out the programme successfully.

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 23 October 2006 and should be read in conjunction with the attached unaudited interim consolidated financial statements for the period ended 30 September 2006. The interim financial statements for the three and nine months ended 30 September 2006 have been prepared by the Company and are the responsibility of the Company's management.

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 and the UK North Sea, with other interests in Spain, Ireland and Vietnam. 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 2006 to date, work has continued on managing its portfolio of interests, advancing the Indonesian developments and preparing for the 2006-07 drilling programme, which commenced with the Oak prospect in October. 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, Q2 and Q3 2005 comparatives have been restated from Canadian Generally Accepted Accounting Principles ("GAAP") to comply with IFRS.

Results of Operations

Serica generated a loss of US$3.8 million for the three months ended 30 September 2006 ("Q3 2006") compared to a loss of US$0.8 million for the three months ended 30 September 2005 ("Q3 2005").

	2006			2005		
	Q3 US$000	Q2 US$000	Q1 US$000	Q3 US$000	Q2 US$000	Q1 US$000
Sales revenue (1)	-	36	25	36	32	31
Expenses:						
Administrative expenses	(1,415)	(1,343)	(1,322)	(1,335)	(1,061)	(1,113)
Foreign exchange gain/(loss)	486	890	(48)	(240)	(600)	(24)
Pre-licence costs	(3,430)	(414)	(160)	(57)	(350)	(288)
Costs of expired licences	(164)	-	-	-	-	-
Share-based payments	(515)	(533)	(436)	(254)	(383)	(78)
Depletion, depreciation & amortisation	(33)	(18)	(10)	(4)	(4)	(4)
Operating loss before finance revenue and tax	(5,071)	(1,382)	(1,951)	(1,854)	(2,366)	(1,476)
Profit on disposal	-	2,187	-	-	-	-
Finance revenue	1,276	1,210	1,152	61	101	82
(Loss)/profit before taxation	(3,795)	2,015	(799)	(1,793)	(2,265)	(1,394)
Taxation credit/(charge)	-	506	-	1,018	759	(41)
(Loss)/profit for the period	(3,795)	2,521	(799)	(775)	(1,506)	(1,435)

(1) From discontinued operations

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$1.4 million for Q3 2006 remained at a consistent level with Q1 and Q2 2006 and for the same period last year. The general increase from 2005 reflects the growing scale of the Company's activities over the past twelve months.

A significant foreign exchange gain of US$0.5 million was earned in Q3 2006. This chiefly arose from the increase in US$ equivalent value of pounds sterling cash deposits held, as the pound continued to strengthen against the dollar during the quarter.

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 significant increase in the charge from US$0.4 million in Q2 2006 to US$3.4 million in Q3 2006 is caused by data acquisition costs as part of the Norway licence applications (US$2.7 million), and a focus on new ventures in Vietnam and Indonesia (US$0.5 million).

The Q3 2006 US$0.2 million charge against relinquished licences relates to the non core UK North Sea licence P1180, Blocks 48/16a and 47/20b.

Share-based payment costs of US$0.5 million reflect share options granted and compare with a cost of US$0.3 million for Q3 2005 and US$0.5 million for Q2 2006. The increase from last year 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 all 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 and the commencement of production.

A profit on disposal of US$2.2 million in Q2 2006 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$1.3 million for Q3 2006, compares with US$0.1 million for Q3 2005 and US$1.2 million for Q2 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 in Q2 2006 arose from the release of the deferred tax liability attached to the Lematang PSC.

Summary of Quarterly Results

Quarter ended:	2006 30 Sep US$000	2006 30 Jun US$000	2006 31 Mar US$000	2005 31 Dec US$000	2005 30 Sep US$000	2005 30 Jun US$000	2005 31 Mar US$000
Sales revenue	-	36	25	25	36	32	31
(Loss)/profit for the quarter	(3,795)	2,521	(799)	(403)	(775)	(1,506)	(1,435)
Basic and diluted loss per share US$	(0.03)	-	(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 Sept 2006 US$000	30 June 2006 US$000	31 March 2006 US$000	31 December 2005 US$000
Current assets:				
Inventories	3,907	681	878	878
Trade and other receivables	6,585	6,241	1,756	2,106
Cash and cash equivalents	101,750	102,430	105,101	109,750
Total Current assets	112,242	109,352	107,735	112,734
Less Current liabilities:				
Trade and other payables	(4,972)	(3,875)	(3,858)	(7,136)
Net Current assets	107,270	105,477	103,877	105,598

At 30 September 2006, the Company had net current assets of US$ 107.3 million which comprised current assets of US$112.2 million less current liabilities of US$5.0 million, giving an overall increase in working capital of US$1.8 million in the three month period.

Inventories increased significantly from US$0.7 million to US$3.9 million in Q3 2006 from the acquisition of steel casing for the forthcoming Indonesian drilling program.

Trade and other receivables at 30 September 2006 included the US$5.0 million proceeds due from the Lematang PSC disposal. Other smaller items included prepayments and sundry UK and Indonesia working capital balances.

Net cash receipts in Q3 included US$6.2 million received during the period from the exercise of warrants, and US$1.3 million of interest income. Net cash outgoings in Q3 2006 covered a US$3.2 million payment for steel casing, plus operational expenses and exploration work.

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, and a US$1.9 million accrual for Norwegian Q3 data costs. 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 Sep 2006 US$000	30 June 2006 US$000	31 March 2006 US$000	31 December 2005 US$000
Intangible exploration assets	29,138	28,102	24,419	23,591
Goodwill	1,877	1,877	2,382	2,382
Property, plant and equipment	270	304	304	26
Long-term other receivables	2,092	2,003	2,129	1,758
Long-term other payables	-	-	(151)	(151)
Deferred income tax liabilities	(1,631)	(1,631)	(2,137)	(2,137)

During Q3 2006, total investments in petroleum and natural gas properties, represented by intangible exploration assets, increased by US$1.0 million to US$29.1 million. This increase was generated from US$1.2 million of new spend, less US$0.2 million of exploration assets written off as non core licences were relinquished. Of the Q3 2006 additions, US$0.5 million related to exploration work and G&A on the Biliton, Asahan and Glagah Kambuna concessions in Indonesia, and US$0.7 million on exploration work and G&A in the UK and Spain.

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 in Q2 2006.

Long-term other receivables of US$2.1 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 September 2006 US$000	30 June 2006 US$000	31 March 2006 US $000	31 December 2005 US$000
Total share capital	157,283	151,119	148,864	148,745
Other reserves	2,753	2,238	1,705	1,269
Accumulated deficit	(21,020)	(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. In Q3 2006, 5,739,426 warrants were converted to ordinary shares 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, from US$1.7 million to US$2.2 million in Q2 2006, and from US$2.2 million to US$2.7 million in Q3 2006 reflects the amortisation of share options.

Capital Resources

At 30 September 2006, Serica had US$107.3 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	36
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 acquired US$3.2 million of steel casing in Q3 2006 and will acquire further amounts up to US$3.8 million. The second tranche is expected to be acquired during Q4 2006. This is contracted for but not provided in the Q3 2006 results.

Following the end of the period ended 30 September 2006, the Company has made significant commitments for capital expenditure on the exploration wells currently being drilled on the Oak and Columbus prospects, and also contracted the SeaDrill 5 jack-up drilling rig for 136 days during 2007 for Indonesian operations.

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, Q2 and Q3 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 Q4 2005 fundraising, 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.

Share Options

As at 30 September 2006, the following options were outstanding:

	Expiry Date	**Amount**	**Cdn$**
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
			£
	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 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 September 2006, the Company generated a loss of US$3.8 million from continuing operations. At 30 September 2006, the Company held cash and cash equivalents of US$101.8 million.

Outstanding Share Capital

As at 23 October 2006, the Company had 150,537,957 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 and on SEDAR at www.sedar.com

Approved on Behalf of the Board

Paul Ellis
Chief Executive Officer

Christopher Hearne
Finance Director

1 November 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 and specify "Serica press releases" in the subject line.

Serica Energy plc
Group Income Statement

Unaudited	Notes	Three months ended 30 Sept 2006 US$000	Three months ended 30 Sept 2005 US$000	Nine months ended 30 Sept 2006 US$000	Nine months ended 30 Sept 2005 US$000
Sales revenue		-	36	61	99
Cost of sales		-	-	-	-
Gross profit		-	36	61	99
Administrative expenses		(1,415)	(1,335)	(4,080)	(3,509)
Foreign exchange gain/(loss)		486	(240)	1,328	(864)
Pre-licence costs		(3,430)	(57)	(4,004)	(695)
Costs of expired/relinquished licences		(164)	-	(164)	-
Share-based payments		(515)	(254)	(1,484)	(715)
Depreciation, depletion & amortisation		(33)	(4)	(61)	(12)
Operating loss before finance revenue and tax		(5,071)	(1,854)	(8,404)	(5,696)
Profit on disposal	6	-	-	2,187	-
Finance revenue		1,276	61	3,638	244
Loss before taxation		(3,795)	(1,793)	(2,579)	(5,452)
Taxation credit for the period		-	1,018	506	1,736
Loss for the period		(3,795)	(775)	(2,073)	(3,716)
Loss per ordinary share (US$):					
Basic and diluted loss per share		0.03	0.01	0.01	0.04

Serica Energy plc
Consolidated Balance Sheet

	30 September 2006 US$000 (Unaudited)	30 June 2006 US$000 (Unaudited)	31 March 2006 US$000 (Unaudited)	31 December 2005 US$000 (Audited)
Intangible exploration assets	29,138	28,102	24,419	23,591
Goodwill	1,877	1,877	2,382	2,382
Property, plant and equipment	271	304	304	26
Other receivables	2,091	2,003	2,129	1,758
	33,377	32,286	29,234	27,757
Inventories	3,907	681	878	878
Trade and other receivables	6,585	6,241	1,756	2,106
Cash and cash equivalents	101,750	102,430	105,101	109,750
	112,242	109,352	107,735	112,734
Total assets	145,619	141,638	136,969	140,491
Current liabilities				
Trade and other payables	(4,972)	(3,875)	(3,858)	(7,136)
Non-current liabilities				
Other payables	-	-	(151)	(151)
Deferred income tax liabilities	(1,631)	(1,631)	(2,137)	(2,137)
Total liabilities	(6,603)	(5,506)	(6,146)	(9,424)
Net Assets	139,016	136,132	130,823	131,067
Share capital	157,283	151,119	148,864	148,745
Other reserves	2,753	2,238	1,705	1,269
Accumulated deficit	(21,020)	(17,225)	(19,746)	(18,947)
Total Equity	139,016	136,132	130,823	131,067

Serica Energy plc
Statement of Changes in Equity
For the period ended 30 September 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
Conversion of warrants	6,164	-	-	6,164
Share-based payments	-	515	-	515
Loss for the period	-	-	(3,795)	(3,795)
At 30 September 2006 (unaudited)	157,283	2,753	(21,020)	139,106

Serica Energy plc
Consolidated Cash Flow Statement

Unaudited	Three months ended 30 Sept 2006 US$000	Three months ended 30 Sept 2005 US$000	Nine months ended 30 Sept 2006 US$000	Nine months ended 30 Sept 2005 US$000
Cash flows from operating activities:				
Operating loss	(5,071)	(1,854)	(8,404)	(5,696)
Adjustments for:				
Depreciation, depletion and amortisation	33	4	61	12
Relinquished/expired licence costs	164	-	164	-
Share-based payments	515	254	1,484	715
Changes in working capital	(2,561)	4,946	(6,833)	7,939
Cash generated from operations	(6,920)	3,350	(13,528)	2,970
Taxes received	-	-	34	-
Net cash flow from operations	(6,920)	3,350	(13,494)	2,970
Cash flows from investing activities:				
Disposals - Cash disposed	-	-	(51)	-
Interest received	1,276	61	3,638	244
Purchases of property, plant and equipment	-	-	(368)	(10)
Purchase of intangible exploration assets	(1,200)	(6,936)	(6,263)	(11,060)
Net cash used in investing	76	(6,875)	(3,044)	(10,826)
Cash proceeds from financing activities:				
Proceeds on exercise of ENI loan note	-	6,555	-	6,555
Proceeds on exercise of warrants/options	6,164	75	8,538	9,754
Net cash from financing activities	6,164	6,630	8,538	16,309
Cash and cash equivalents				
Net (decrease)/increase	(680)	3,105	(8,000)	8,453
Amount at start of period	102,430	7,077	109,750	1,729
Amount at end of period	101,750	10,182	101,750	10,182

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.

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 nine months ended 30 September 2006. Costs of the Singapore office are included in the Indonesian geographical segment and pre-licence expenditure in Norway is included within UK.

	Indonesia	UK	Spain	Total
	US$000	US$000	US$000	US$000
Revenue	61	-	-	61
Net income/(loss)	2,062	(4,013)	(122)	(2,073)

4. Equity Share Capital

	30 Sept 2006 Number	30 Sept 2006 US$000	31 December 2005 Number	31 December 2005 US$000
Authorised:				
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
	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 2006	142,548,580	14,345	134,400	148,745
Warrants/options exercised (2)	121,250	12	107	119
As at 31 March 2006	142,669,830	14,357	134,507	148,864
Warrants/options exercised (3)	2,128,701	213	2,042	2,255
As at 30 June 2006	144,798,531	14,570	136,549	151,119
Warrants exercised (4)	5,739,426	574	5,590	6,164
As at 30 September 2006	150,537,957	15,144	142,139	157,283

(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.

(4) From 1 July 2006 until 30 September 2006, 5,739,426 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, US$533,000 and US$515,000 has been charged to the income statement in the periods ended 31 March 2006, 30 June 2006 and 30 September 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:

SEC Share Option Plan	**Number**	**WAEP Cdn$**
Outstanding at 31 December 2005	4,212,500	1.58
Cancelled during the period	(110,000)	1.27
Outstanding at 31 March and 30 June and 30 September 2006	4,102,500	1.59
Serica 2005 Option Plan		**£**
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 and 30 September 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 in Q2 2006.

7. Taxation

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

	For the nine months ended 30 September	
	2006 US$000	2005 US$000
Current income tax charge	Nil	Nil
Deferred income tax credit	506	1,736

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.