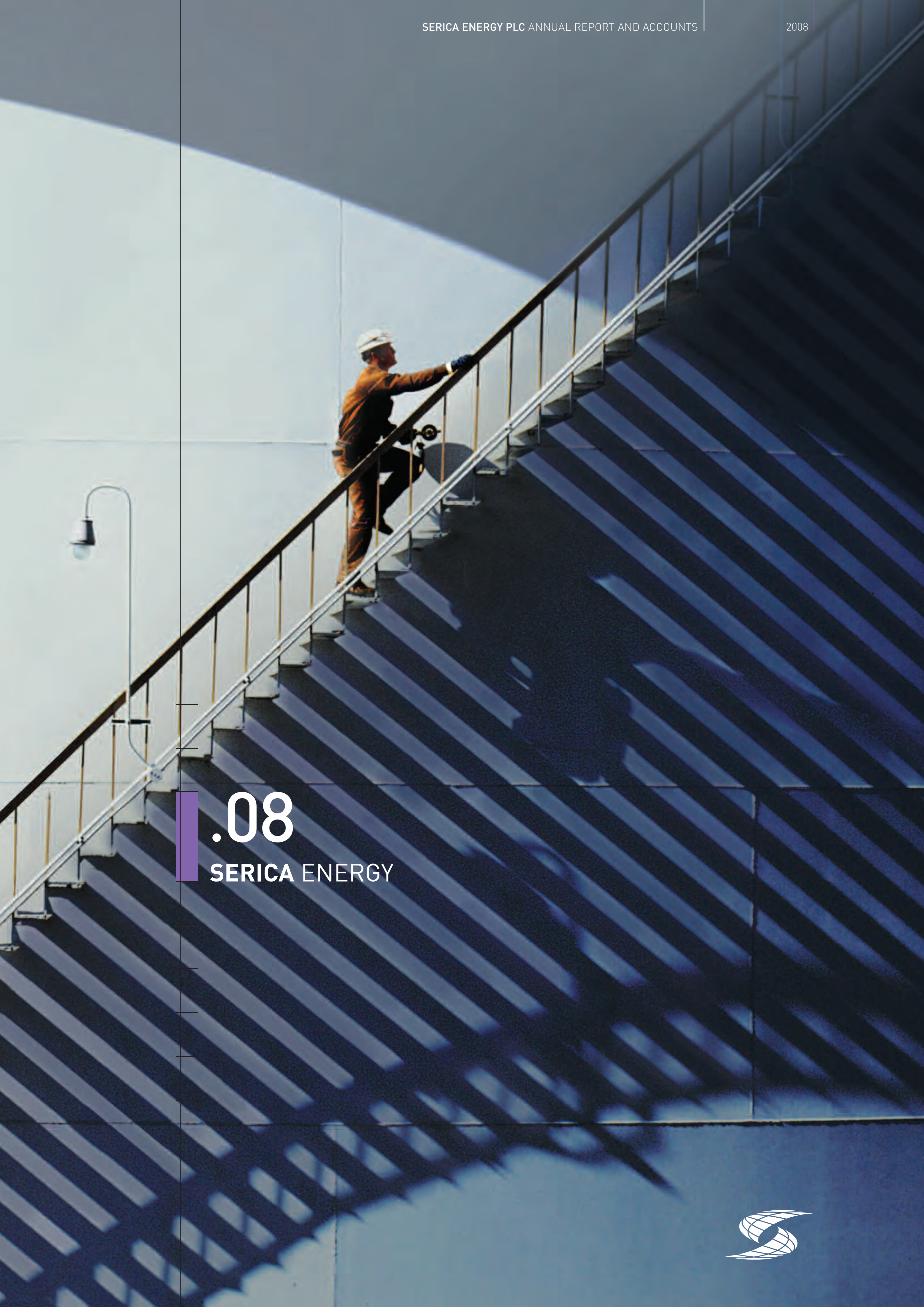

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SERICA ENERGY


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Serica Energy plc is an international upstream oil and gas company with exploration, appraisal and development operations in Western Europe and South East Asia. The Company's shares are listed on AIM in London and on the Canadian TSX Venture Exchange under the symbol SQZ.

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HIGHLIGHTS

Operational

48% increase in Serica's Proven and Probable (2P) Reserves

- Now 28.5 mmboe (2007 19.3 mmboe) despite partial Kambuna sale
- Kambuna development nears production
- Gross Kambuna field 2P Reserves increased to 39.3 mmboe with 3P assessed as 62.5 mmboe (Serica interest is 50%)
- Development wells completed and tested at 114 mmscfd
- Platform topsides installed and pipeline laid
- Gas contracts finalised
- First production scheduled for mid year

Columbus on track for development

- Gross Columbus field 2P Reserves assessed as 17.7 mmboe with 3P assessed as 42.3 mmboe (Serica interest is 50%)
- Field Development Programme submitted for approval
- Expected to benefit from UK Chancellor's recent budget

New acreage added to existing core areas

- 5,864 sq km East Seruway PSC, adjacent to Kambuna, offshore Sumatra
- UK North Sea: 3 UK part blocks awarded in 25th Round

2009 exploration drilling has potential to add material value

- Bandon prospect in Ireland to be drilled in May
- Tuong Vi prospect in Vietnam to be drilled May/June
- Conan prospect in the East Irish Sea planned for 2H 2009

Asset Management

Substantial financial contribution from asset disposal and licence farm-out

- US$52 million cash received from disposal of 15% of Kambuna TAC
- Chablis farm-out raised 56% of well cost (Serica retains 65%)
- Vietnam farm-out raised 33% of 3 well programme (Serica retains 10%)
- Bandon farm-out raised 100% of well cost (Serica retains 50%)
- Contingent payment on first Bream field production (Norway)

Financial

- US$36.6 million profit on sale of 15% of Kambuna field
- 2008 net loss of US$1.0 million (US$13.6 million in 2007) including asset impairments of US$24.0 million
- Solid net cash position at 31 December 2008 – US$56.8 million of cash and US$32.1 million of debt
- Bank facility extended by 1 year

FINANCIAL SUMMARY FOR 2008

Notes:

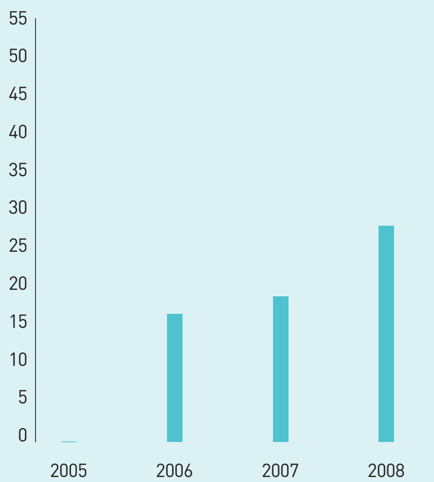
[1] Gas converted at 6,000 standard cubic feet per barrel of oil equivalent for Columbus and gas converted at 4,800 standard cubic feet per barrel of oil equivalent for Kambuna.

Company net oil and gas reserves (working interest basis)	**Proven and probable 2008**	Proven and probable 2007
At 31 December		
Gas – million cubic feet	**105,100**	77,600
Condensate & LPG – barrels	**8,180,000**	6,410,000
Total – barrels of oil equivalent[1]	**28,483,000**[1]	19,343,000

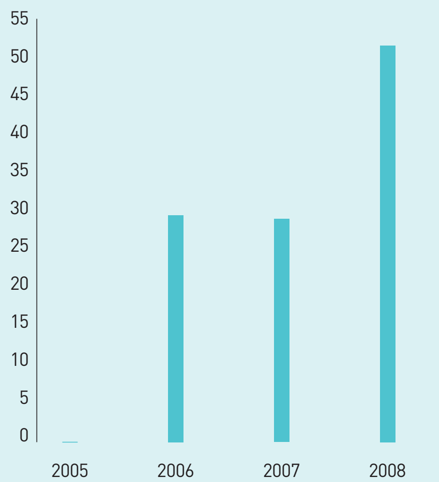
Financial position		
Market capitalisation	**US$79 million**	US$281 million
Net current assets	**US$22 million**	US$31 million
Cash	**US$57 million**	US$23 million
Number of shares in issue	**176,518,311**	151,647,957
Number of shares fully diluted	**187,319,811**	159,437,456

On 7 January 2008 the Company raised an additional US$49 million net of expenses as the result of a placing of 24,770,354 ordinary shares in the Company.

Net working interest reserves – million barrels of oil equivalent



Proved plus Probable



Proved plus Probable plus Possible

LICENCE INTERESTS

The following table summarises the Company's worldwide interests.

Block(s)	Description	Role	%	Location
United Kingdom				
14/15a	Exploration	Operator	50%	Central North Sea
15/21g	Exploration	Partner	30%	Central North Sea
23/16f	Columbus field	Operator	50%	Central North Sea
23/16g	Exploration	Operator	50%	Central North Sea
48/16a	Chablis appraisal	Operator	100%	Southern Gas Basin
48/16b	Chablis appraisal	Operator	65%	Southern Gas Basin
48/17d	Chablis appraisal	Operator	65%	Southern Gas Basin
54/1b	Oak discovery	Operator	50%	Southern Gas Basin
110/2d	Exploration	Operator	100%	East Irish Sea
113/26b	Exploration	Operator	100%	East Irish Sea
113/27c	Exploration	Operator	100%	East Irish Sea
Ireland				
27/4	Exploration	Operator	50%	Slyne Basin
27/5 (part)	Exploration	Operator	50%	Slyne Basin
27/9	Exploration	Operator	50%	Slyne Basin
Spain				
Abiego	Exploration	Operator	75%	Pyrenees/Ebro Basin
Barbastro	Exploration	Operator	75%	Pyrenees/Ebro Basin
Binéfar	Exploration	Operator	75%	Pyrenees/Ebro Basin
Peraltilla	Exploration	Operator	75%	Pyrenees/Ebro Basin
Indonesia				
Glagah Kambuna TAC	Kambuna development	Partner	50%	Offshore North Sumatra
East Seruway PSC	Exploration	Operator	100%	Offshore North Sumatra
Kutai PSC	Exploration	Operator	78% (1)	Kutai Basin
Vietnam				
Block 06/94	Exploration	Partner	33.3%(2)	Nam Con Son Basin

Notes:
(1) The Company's 78% interest in the Kutai PSC will reduce to 54.6% following Indonesian government approval of the disposal of a 23.4% interest to Salamander Energy, announced in July 2008.
(2) The Company's 33.3% interest in Block 06/94 will reduce to 10% following required approvals of the disposal of a 23.3% interest to Australian Worldwide Exploration Limited, announced in March 2009.

Engineers installing a valve in the gas plant for Serica's Kambuna field. The plant is being constructed at Pangkalan Brandan in north Sumatra, Indonesia and will process the gas and condensate produced from the offshore field via a 14 inch pipeline directly linking the field to the gas plant. The gas will be sold into the nearby Medan area, primarily for power generation, and the condensate will be exported by tanker.

In March 2009, the platform topsides for the Kambuna gas field were successfully lowered onto the wellhead tower that supports the three Kambuna production wells. The platform contains the pipework and valves that will control the flow of gas from the wells and will combine the well streams into the single 14 inch submarine pipeline to shore. Also on the platform are dosing pumps that will inject corrosion and hydrate inhibitors into the pipeline.

CHAIRMAN'S REPORT

Dear Shareholder

2008 can be summed up as a year of extremes. We started the year with oil and gas prices exceptionally strong and with many of the world economies continuing to boom. We ended the year with oil prices down 70% from their mid-year high and with the major economies in recession.

Managing a business in this environment is difficult to say the least, particularly for small companies such as Serica. However, I am pleased to say that the Company reached the year end in a relatively strong position as a result of the decision made earlier in the year to strengthen the Company's finances through the sale of part of one of our assets, the Kambuna field in Indonesia, and to manage the cost and risk of our near term exploration programme through farm-out. As a result, year-end cash stood at US$56.8 million with net current assets at US$21.8 million.

In addition to the fall in the oil price and the onset of worldwide recession, the global credit crunch resulted in a major withdrawal of capital from both the equity and debt markets and consequential falls in share prices. These share price falls bear little relationship to core asset values for companies like Serica, which are focussed more on gas reserves than on oil, but they do affect the ability of companies to finance their operations. Serica has met this challenge by reducing its capital requirements through farm-out and deferral and we have also received strong support from our banks through the extension of our financing facility for the Kambuna field development. As a result, we are confident that the value of the business is protected with prospects for the Company remaining positive.

Last year I said that we expected gas and condensate sales from the Kambuna field to commence at the end of 2008. That target was not achieved due to delays in the government approval process and other operational delays but the field is now scheduled to start production mid-year, bringing our first revenues from the sale of gas and condensate and achieving an important milestone for the Company.

The sale of a 15% interest in the Kambuna field in the third quarter realised a profit of US$36.6 million and demonstrated the value of the Company's retained 50% interest in the field. Serica has also benefitted from increased Kambuna field reserves. Together with the inclusion for the first time of reserves in the Columbus field in the North Sea, which is also expected to benefit from the UK chancellor's recent announcement of tax incentives to encourage field development, this has resulted in an overall 48% increase in the Company's booked reserves this year from 19.3 mmboe to 28.5 mmboe, despite the disposal of part of the Kambuna field.

Notwithstanding the profit from the Kambuna sale, the Company is reporting a net loss of US$1.0 million for the year, compared to a loss of US$13.6 million for 2007. This results from the Board's decision to write-off carrying costs relating to certain of the Company's exploration interests. These include the Company's interests in Spain, where drilling plans have been deferred, the costs of the Oak discovery in the North Sea, where development prospects are uncertain, and the costs to the end of 2008 relating to Chablis where recent drilling has not been able to resolve commercial uncertainties. Whilst value has been added from our exploration and appraisal successes the Board has made provision where there are no current expenditure plans.

Of course the substantial fall in oil price and the current credit squeeze bring opportunities that Serica will exploit where possible as Kambuna revenues commence and Columbus moves closer to production. In 2009 we plan to drill three wells with the first of these, the Bandon prospect offshore Ireland, expected to start in May. Success in this well would be material to the Company.

During the course of the year we welcomed two new directors to the Board. Jonathan Cartwright joined Serica in March 2008 as a non-executive director. Jonathan is Finance Director of Caledonia Investments plc, one of Serica's major shareholders and I welcome both his support and the additional financial expertise that he brings to the Board. Peter Sadler was appointed Chief Operating Officer and joined the Board in November 2008. His extensive experience as a senior executive with independent oil companies in the UK, Australasia and the Middle East considerably strengthens our executive team.

In summary, 2008 has been a year in which Serica has been able to strengthen both its financial position and its risk profile against a background which has not been friendly to business. 2009 brings continuing challenges but also opportunities for which I believe Serica is well placed.

Tony Craven Walker

Tony Craven Walker
Chairman

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial and operational results of Serica Energy plc and its subsidiaries (the "Group") should be read in conjunction with Serica's consolidated financial statements for the year ended 31 December 2008. Serica's activities are based in Western Europe and South East Asia, with interests in the UK, Ireland, Spain, Indonesia and Vietnam. References to the "Company" include Serica and its subsidiaries where relevant. All figures are reported in US dollars ("US$") unless otherwise stated.

CHIEF EXECUTIVE OFFICER'S REPORT

Despite the economic extremes of 2008, Serica was able to continue the development of the Kambuna field towards first revenue, to increase its reserves significantly, and to improve its financial position by selling a small stake in the Kambuna field in July. Serica also extended its senior debt facility for Kambuna by one year through to November 2009, by which time the field will have been on production for several months. In addition the Company has negotiated farm-out arrangements that will contain the cost of its drilling programme and will enable Serica to drill its exploration prospects in Ireland and Vietnam in 2009 at little cost to the Company.

Serica made significant progress towards its goals in 2008, especially in the development of the Kambuna field in the Glagah-Kambuna Technical Assistance Contract offshore North Sumatra ("the TAC") in which Serica holds a 50% interest. The three Kambuna development wells were completed and tested at production rates which exceeded expectations. However, it is disappointing to note that it proved difficult to obtain timely governmental approvals for construction of the onshore gas facility, contributing to a delay to first gas production of about six months – to mid 2009.

Gas sales contracts have been finalised for the sale of a total of 40 mmscfd at an average price of $4.90 per million BTU ("mmbtu") (approximately $5.85 per mcf), escalating at 3% per year. It is planned to sell a further 10 mmscfd to bring the gross field gas sales to an average of 50 mmscfd. At full production we expect that the initial average realised gas price will be around $6 per mcf. The condensate produced with the gas is expected to provide an initial gross liquid production of around 3,000 to 4,000 bpd to be sold at a price close to that of crude oil. The cost recovery provisions of the TAC provide a natural hedge against oil prices, because Serica can claim a larger share of oil production to cover its costs if the oil price falls.

Following the completion of the development wells, RPS Energy has estimated that the gross Proved and Probable Reserves of the Kambuna field have increased to 39.3 million barrels of oil equivalent ("mmboe"). There is still a considerable upside to these reserves and RPS estimates the gross Proved, Probable and Possible Reserves of the field to be 62.5 mmboe.

In July 2008 Serica's sale of a 15% interest in the TAC to Salamander Energy plc for US$52.7 million implied a value for Serica's retained 50% interest of US$175 million. On the basis of RPS' forecast of oil price and a discount factor of 10%, RPS has estimated the post-tax net present value of Serica's 50% interest in the Kambuna field to be US$160 million at 31 December 2008, indicating the limited impact of the fall in oil price in the second half of the year.

This sale also provided the opportunity for Serica to transfer the Kambuna development operatorship to Salamander, allowing Serica to concentrate its resources on its core business of exploration where the greater potential exists for significant increases in shareholder value.

Progress was made during 2008 with the Columbus gas field and Serica submitted a Field Development Programme ("FDP") to the UK authorities in October. Serica completed the drilling of the Columbus appraisal wells 23/16f 12 and its sidetrack well 23/16f 12z in late 2007. From the time that Serica discovered the Columbus field in December 2006, it had been considered possible that the field might extend to the south into Block 23/21, operated by BG Group ("BG"). However, with BG having no apparent plan to drill in Block 23/21 to establish the presence of an extension, the 23/16f partners submitted the FDP without the involvement of the Block 23/21 group. However, late in 2008 BG Group drilled the 23/21-7 well in block 23/21, approximately three kilometers south of the 23/16f-11 Columbus discovery well. Well 23/21-7 comprised a total of four penetrations of the Forties sand reservoir and the data obtained are currently under evaluation.

Netherland Sewell & Associates ("NSA") has estimated that the gross Proved and Probable Reserves of the Columbus field located in Block 23/16f are 17.7 mmboe, with gross Proved and Probable and Possible Reserves of 42.3 mmboe, indicating the considerable upside remaining in the block. Serica holds a 50% interest in Columbus.

Fundamental to Serica's exploration strategy is its ability to find prospects of such quality that, even when the industry's exploration budgets are being curtailed, we are able to find partners to fund a large proportion of the costs of the wildcat drilling. Initially our exploration efforts in 2008 were focused on securing farm-in partners for the wells to be drilled by Serica on two of its 100% owned licences: the Block 48/16b Chablis appraisal well in the UK southern North Sea and the Bandon exploration well in the Slyne Basin Licence PEL 01/06 off the west coast of Ireland. These efforts were successful and the Company agreed terms with Hansa Hydrocarbons Limited with respect to Chablis and with RWE-DEA AG with respect to Bandon.

We commenced drilling the Chablis appraisal well 48/16b-3 in December and completed the operation in January 2009. Although the well encountered gas-bearing Rotliegendes sands of good reservoir quality the gas bearing interval was thin and the well was plugged and abandoned. The commercial potential of the Chablis accumulation and the remaining adjacent prospects is still unproven and no reserves can be attributed to the area at this time.

We planned to drill the Bandon well offshore Ireland in the summer of 2008, but were not able to acquire the required site survey data at the drilling location early enough for the drilling weather window, due to the poor Atlantic weather experienced in April. However, the survey was acquired later in the year and a rig has been contracted to drill the well in May 2009.

We were also successful in attracting a farminee for the Tuong Vi prospect in Vietnam, and this well is expected to be spudded in June 2009. In keeping with our strategy, further farm-outs are planned for the Conan exploration well in the East Irish Sea and for the wells to be drilled in 2010 in the Kutai PSC.

Serica continues to develop its exploration portfolio on a selective basis and during 2008 was awarded a large Production Sharing Contract offshore Indonesia, the East Seruway PSC, which lies adjacent to the Glagah-Kambuna TAC. We also added new acreage offshore UK with three licence awards in the 25th Licensing Round.

Following the recent announcement of the results of the Chablis appraisal well, we have reviewed the level of costs held in our accounts relating to the asset. Although there may be commercial potential in Serica's Chablis licence areas, in the present economic climate we have decided that no further funds should be committed at this stage. In two other areas no further significant expenditure is planned: UK Block 54/1b (the Oak discovery) and the Spanish Permits. In Block 54/1b the presence of inert gases in the test production from the Oak discovery makes commercial exploitation of this small gas accumulation unlikely in the short term. In Spain, we have obtained a one year suspension of the Permits while we seek a farminee to drill one of the gas prospects identified by Serica following its seismic programme, as the Company has prioritised other exploration activities. In both of these cases we currently plan no significant expenditure and have therefore written off the exploration and evaluation costs incurred to date.

In Norway, Serica completed the disposal of its 20% interest in Licences PL406 and PL407 which included the undeveloped Bream oil field, since Serica considered that due to the high cost of E&P activity in Norway it would not be possible for it to build a particularly profitable business. The Company retains the benefit of a contingent cash payment related to the oil price at the time that the Bream field is brought onto production.

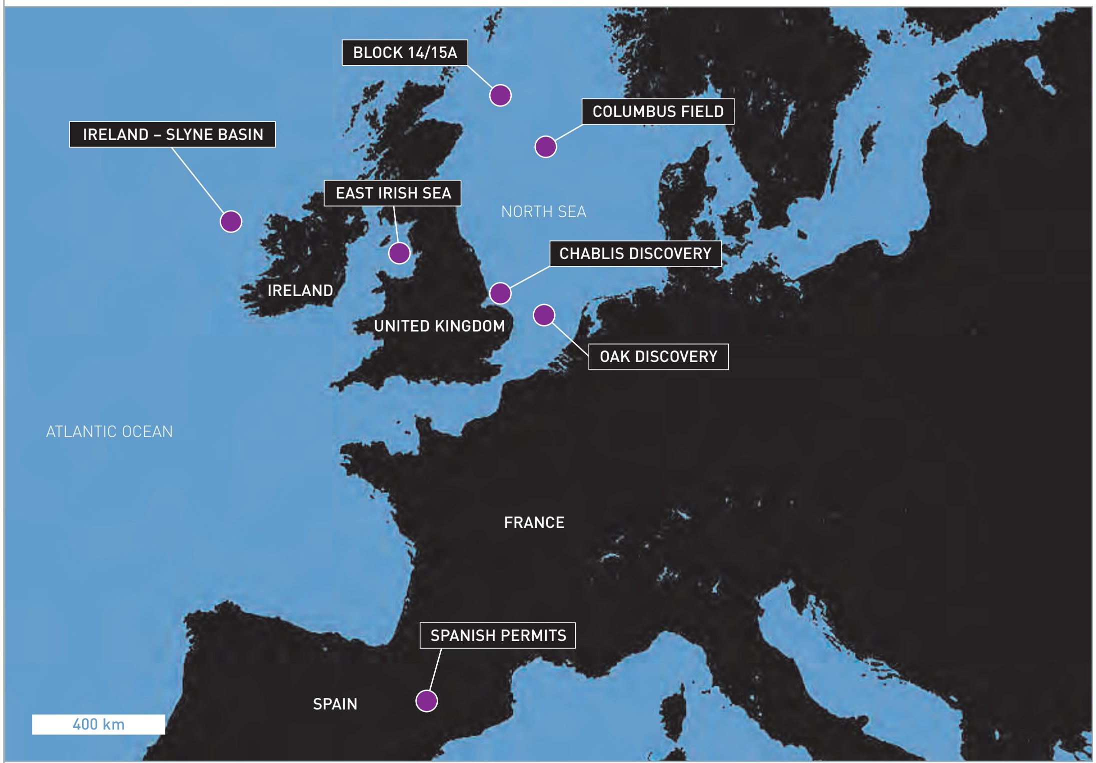
The achievements of 2008, including a 48% increase in booked Proven and Probable Reserves to a total of 28.5 mmboe, were made against a challenging global and industry backdrop and provide a strong testimony for Serica's team and its business approach.

Serica's priorities for 2009 are to achieve first production from the Kambuna field and we plan to drill three exploration prospects which could result in material value to the Company, without incurring significant cost. We will also add further exploration acreage in areas where our knowledge and expertise can add value. In parallel, efforts will be directed towards the successful refinancing of the Company's debt facility on acceptable terms. Serica looks forward to the coming year with enthusiasm and anticipation. 2009 will be the year that Serica matures from its formative years as a pure exploration company and becomes a better balanced company with both exploration and production assets.

Paul Ellis

Paul Ellis
Chief Executive Officer

REVIEW OF OPERATIONS WESTERN EUROPE



OVERVIEW

In Western Europe Serica holds offshore licence interests in the UK North Sea and East Irish Sea, in Ireland and has onshore licence interests in Spain.

UNITED KINGDOM

Columbus Field Area Blocks 23/16f and 23/16g Central North Sea

Block 23/16f covers an area of approximately 52 square kilometres in the Central North Sea and contains the undeveloped Columbus field. Serica operates the block and holds a 50% interest.

Following Serica's December 2006 Columbus discovery well 23/16f-11 which tested a Forties Paleocene sand reservoir at rates of up to 17.5 mmscfd of gas and over 1,000 bpd of condensate, two Columbus appraisal wells, 23/16f-12 and 23/16f-12z, were drilled in the third quarter 2007 and both successfully encountered gas columns and confirmed that the field had development potential.

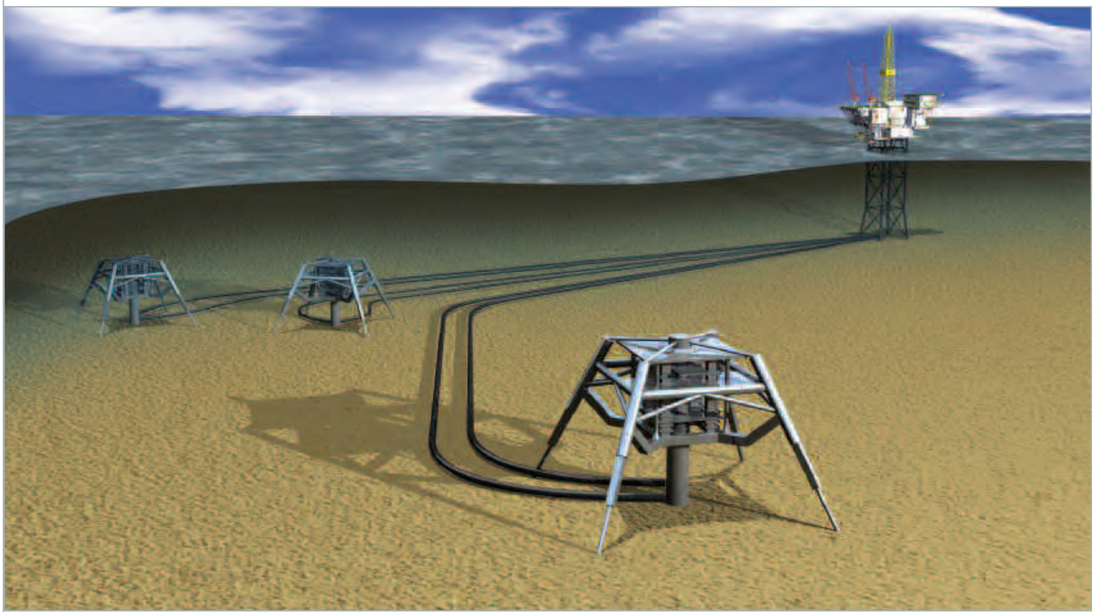
In October 2008, Serica submitted the Field Development Programme ("FDP") for the Columbus field to the UK government. Engineering studies have been carried out in cooperation with neighbouring infrastructure operators and the FDP currently envisages production via a subsea tie-back to the BP operated Eastern Trough Area Project ("ETAP").

Other production routes are possible and work continues on the final gas and condensate transportation arrangements, which are subject to commercial negotiations. Commencement of development is subject to the approval of the Columbus FDP by the UK government.

Two months after filing this plan, Serica learned that in the adjacent Block 23/21, operator BG Group ("BG") had started to drill a well, about three kilometres south of the 23/16f-11 Columbus discovery well. BG well 23/21-7 comprised a total of four penetrations of the Forties sand reservoir and the data obtained are currently under evaluation.

The Columbus field will be developed using subsea wellheads tied back to an existing producing field. One of the lines from each well is the pipeline used to transport the produced gas and condensate. The second line is a control umbilical that enables the various valves in the wellhead to be operated remotely and flow from the well to be controlled.

Columbus field illustration of one of the subsea development concepts



Independent consultants Netherland, Sewell & Associates have carried out a reserves report on the Columbus field. This report estimates that the gross Proved plus Probable Reserves of the field are 77.4 bcf of sales gas and 4.8 mm bbl of condensate, a total of 17.7 mm boe, with an upside gross Proved plus Probable plus Possible Reserves of 42.3 mm boe. Serica holds a 50% interest in the Columbus field reserves.

Immediately to the north of Block 23/16f lies Block 23/16g, which Serica operates and in which it holds a 50% interest. The block contains a small Forties sand prospect called Livingstone, but the 3D seismic data here is inconclusive as to whether the prospect is likely to contain hydrocarbons.

Columbus field testing the Columbus discovery well 23/16f-11

UNITED KINGDOM (continued)

Chablis Discovery Area Blocks 48/16b and 48/17d Southern North Sea

These contiguous blocks cover a total area of 88 square kilometres in the Southern North Sea. Block 48/16b contains the Chablis discovery, drilled in 2001 by ConocoPhillips. Block 48/17b was awarded to Serica in the UK 24th Offshore Licensing Round and lies immediately east of Block 48/16b.

In September 2008, Serica (which then held a 100% interest in both blocks) announced that Hansa Hydrocarbons Limited ("Hansa") would farm-in to Blocks 48/16b and 48/17d. Under the terms of the agreement, Hansa earned a 35% working interest in the blocks in return for contributing to past costs and funding 56% of the majority of the cost of the Chablis appraisal well 48/16b-3. Following completion, Serica remains as operator and retains a 65% working interest in the blocks.

During 2008 work focused on the preparations for and drilling of the appraisal well 48/16b-3 for which Serica contracted the Northern Offshore Energy Enhancer jack-up rig, which spudded the well in December 2008.

Well 48/16b-3 was designed to appraise the Chablis gas discovery made in well 48/16b 2 in 2002 and was targeted to determine the thickness and quality of the Leman sandstone reservoir two kilometres to the east of the discovery well, where there was considerable uncertainty concerning the reservoir quality and thickness. The well had reached a depth of 6,580 ft true vertical depth below mean sea level ("TVDSS") when operational difficulties required the lower section of the well to be re-drilled as sidetrack well 48/16b-3z, which reached the planned total depth of 8,136 ft TVDSS on 12 January 2009, having encountered gas-bearing Leman sands.

Although the results of the well show that the reservoir quality is markedly better than in the discovery well and that the wells share a common gas-water contact, the gas-bearing interval was thinner than in the Chablis discovery well.

Serica is now assessing the remaining potential in the undrilled areas east and west of the two wells, where further gas-bearing sands are expected to be present. The 48/16b 3z well was plugged and abandoned.

Oak Discovery Block 54/1b

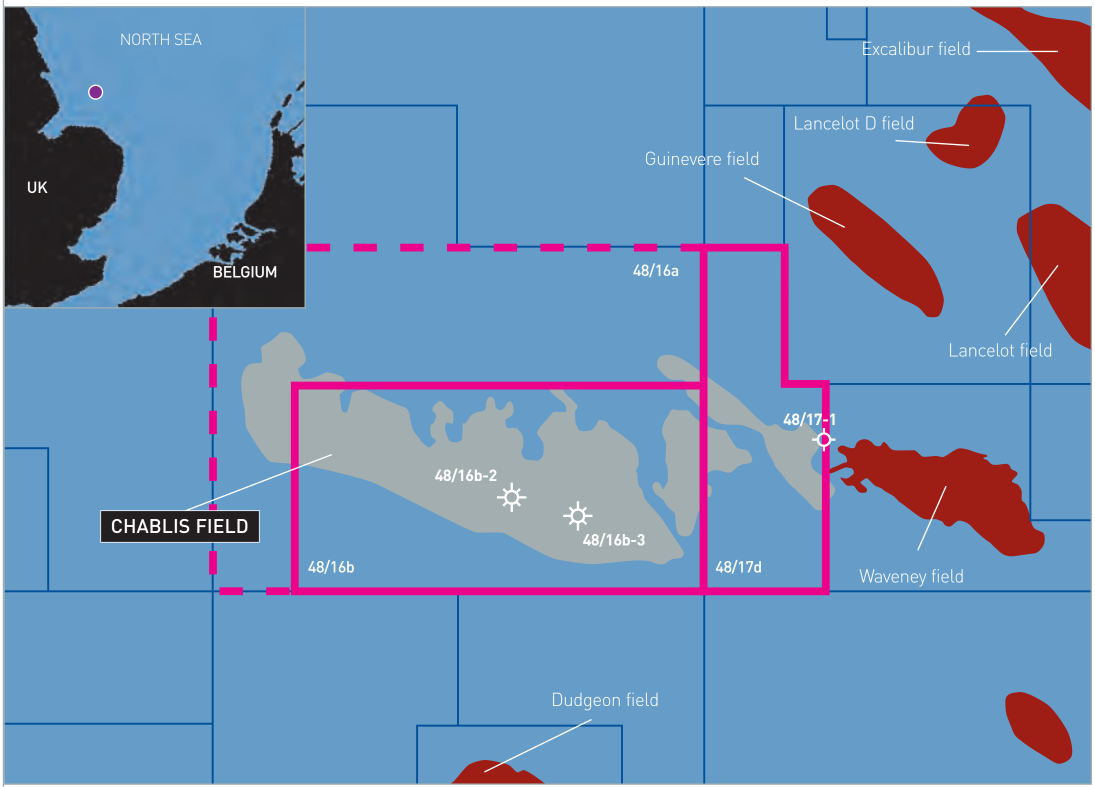
Block 54/1b covers an area of 57 square kilometres in the Southern Gas Basin. Serica is operator of the block and holds a 50% interest.

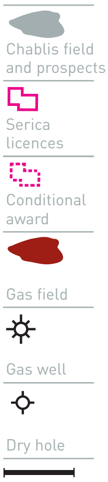
Well 54/1b-6 was drilled in 2006 and encountered a gas-bearing Leman sandstone reservoir that produced at a stabilized flow rate of approximately 10 mmscfd during a drill-stem test. Subsequent laboratory analysis of gas samples taken during the test indicated that over 50% of the gas was made up of carbon dioxide and nitrogen.

The Oak discovery lies on the median line between the UK and the Netherlands and other fields with a similarly high inert gas content have been discovered near to Oak in both the UK and Dutch sectors. An operator in Holland is investigating the feasibility of joint development of such fields with export to the Dutch gas market. Serica presently considers that in the absence of such a joint development it is unlikely that the Oak discovery could be produced commercially.

Chablis field and adjacent fields

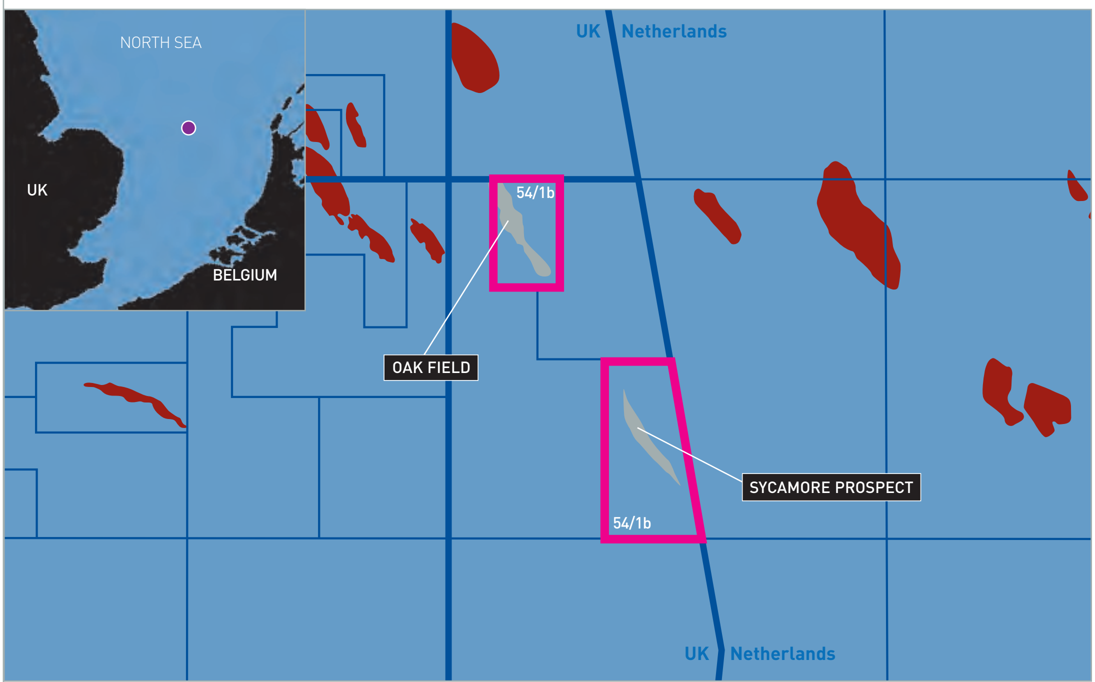
The results of the Chablis appraisal well 48/16b-3 confirm that it is in the same reservoir as the discovery well 48/16b-2, although commerciality of the field is not yet established. Serica was recently awarded Block 48/16a which may contain an extension of the Chablis field.





Oak discovery and adjacent fields

Serica recently relinquished part of Block 54/1b in which it discovered the Oak field in 2006. The south-eastern area includes the Sycamore prospect, but it is likely that any gas discovered would contain a high proportion of inert gases as at Oak.



UNITED KINGDOM (continued)

East Irish Sea Blocks 113/26b and 113/27c

Serica was awarded a 100% interest in Blocks 113/26b and 113/27c in the UK 24th Offshore Licensing Round in 2007 and is the operator. The blocks cover an area of approximately 145 square kilometres in the East Irish Sea and lie immediately to the north of the Millom field and within ten kilometres of the Morecambe field - one of the UK's largest gas fields.

Serica has identified two Sherwood sand gas prospects, Conan and Doyle. The Conan prospect exhibits a seismic amplitude anomaly at top reservoir level which is of the order of 28 square kilometres in area – making it the largest undrilled amplitude anomaly in the basin. By analogy with several other gas fields in the East Irish Sea (e.g. Hamilton and Calder), which also exhibit an amplitude anomaly, a compelling case can be made that the amplitude seen at Conan is indicative of gas. The prospective resource potential of Conan could be as much as one trillion cubic feet of gas and the prospect lies at a depth of around 5,000 feet. Any discovery here is likely to be economically attractive, as the prospect lies in shallow water and is close to existing infrastructure. Serica is currently seeking a farminee to share the costs of drilling the Conan prospect.

Central North Sea Block 14/15a

This block covers an area of approximately 108 square kilometres in the Outer Moray Firth in the Central North Sea, adjacent to the Claymore and Lowlander fields. Serica is the block operator and has a 50% interest.

Reprocessing of available 3D seismic data was completed in 2008 and interpretation is underway to mature leads that have been identified at Upper Jurassic, Lower Cretaceous and Paleocene levels.

UK Continental Shelf 25th Round

In the UK 25th Offshore Licensing Round, Serica was offered interests in three blocks: Block 15/21g in the Central North Sea, Block 48/16a (part) in the Southern North Sea and Block 110/2d in the East Irish Sea. The work programmes for these licences include seismic reprocessing but there are no firm well commitments.

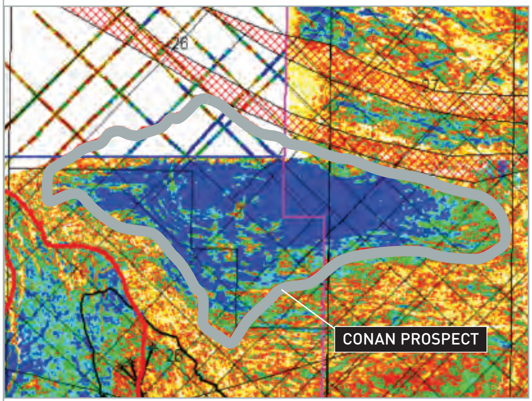
Block 15/21g lies in the Central North Sea and Serica will have a 30% interest. The block lies immediately west of the Scott field and contains a potentially significant extension to the existing Jurassic oil discovery in well 15/21a-38. The licence operator will be a subsidiary of Encore Oil plc.

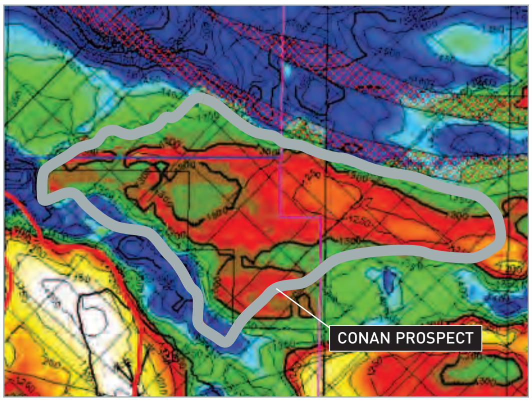
Block 48/16a (part) lies in the Southern North Sea and Serica will operate the licence. The block lies immediately west of Serica's Chablis field and the field, if proven, may extend into the new licence. Serica will initially have a 100% interest, but this may be reduced to 65% under the terms of a farm-out agreement. Serica presently holds a 65% operated interest in the Chablis field in Blocks 48/16b and 48/17d.

Block 110/2d lies in the East Irish Sea adjacent to the Morecambe gas field and five kilometres south of Serica's Blocks 113/26b and 113/27c which contain the Conan and Doyle prospects. Serica will operate the licence with a 100% interest.

The Conan prospect was first identified as a seismic amplitude anomaly (left hand map) that did not exhibit a time closure. Following extensive depth conversion studies a valid depth structure emerged that conformed to the area of the anomaly (right hand map), suggesting that a large gas prospect has been identified.

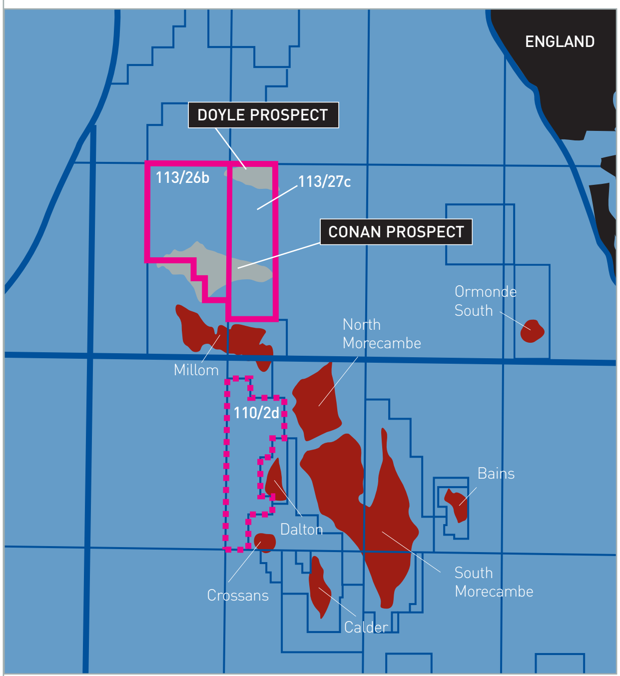
Conan prospect Seismic amplitude and depth maps





In the UK 25th Round Serica was awarded Block 110/2d, which lies immediately west of the Morecambe field. Three gas prospects have already been identified in the Block.

East Irish Sea Serica prospects and nearby fields



Ocean Guardian drilling rig leaving Invergordon for the Bandon location

IRELAND

Slyne Basin Licence PEL 01/06 – Blocks 27/4, 27/5 (west) and 27/9

Serica is the operator and holds a 50% interest in Licence PEL 01/06, which covers an area of 611 square kilometres in the Slyne Basin off the west coast of Ireland and lies about 40 kilometres south of the Corrib gas field. The Licence comprises Blocks 27/4, 27/5 (west) and 27/9.

In September 2008, Serica reached agreement with RWE Dea AG ("RWE") to farm-out a 50% interest in Licence PEL 01/06 and the transaction completed in December 2008 following receipt of the required Irish government approvals. Under the terms of the farm-out agreement, RWE will contribute the bulk of the cost of drilling the first exploration well, the Bandon prospect, scheduled for May 2009. Serica will remain as operator and retains a 50% working interest in the Licence.

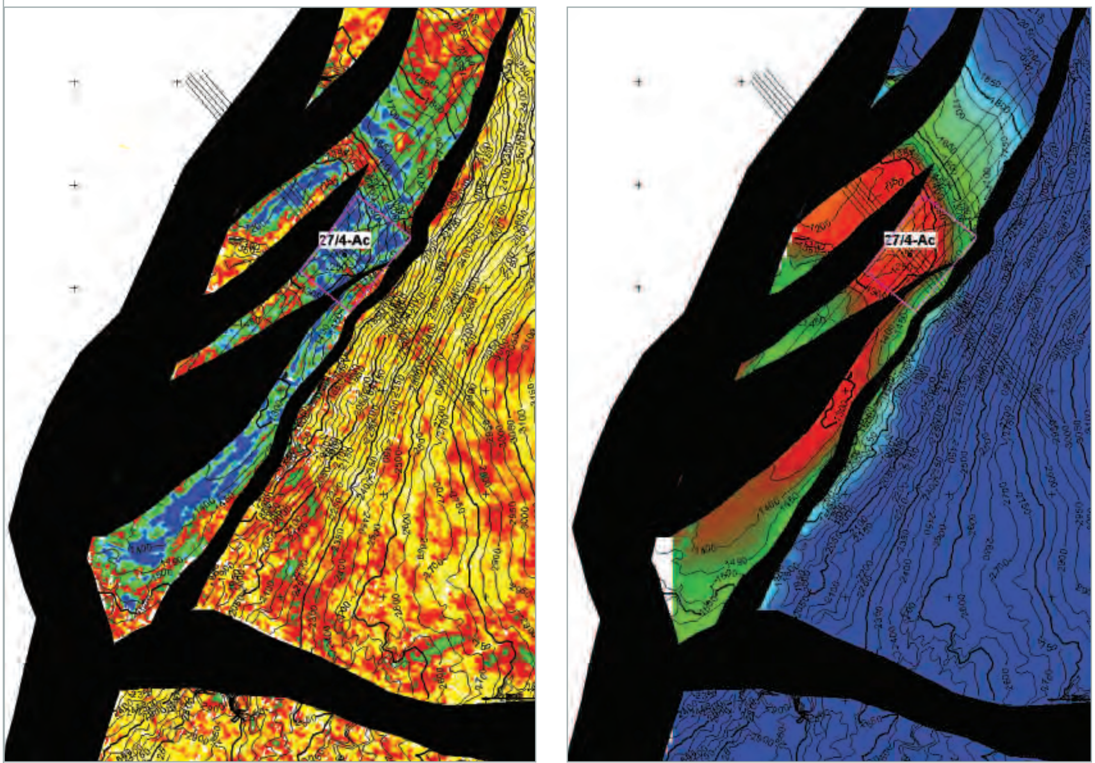
Serica has identified four prospects in the blocks, two of which exhibit strong seismic amplitude anomalies. The Bandon prospect, the first of these anomalies to be drilled, has a prospective resource range of 230 billion cubic feet to 1.7 trillion cubic feet.

Ireland has immediate and long-term needs for local gas supplies as it currently imports the bulk of its gas needs. Any sizeable discovery in the blocks would be a significant and welcome addition to Ireland's energy supplies.

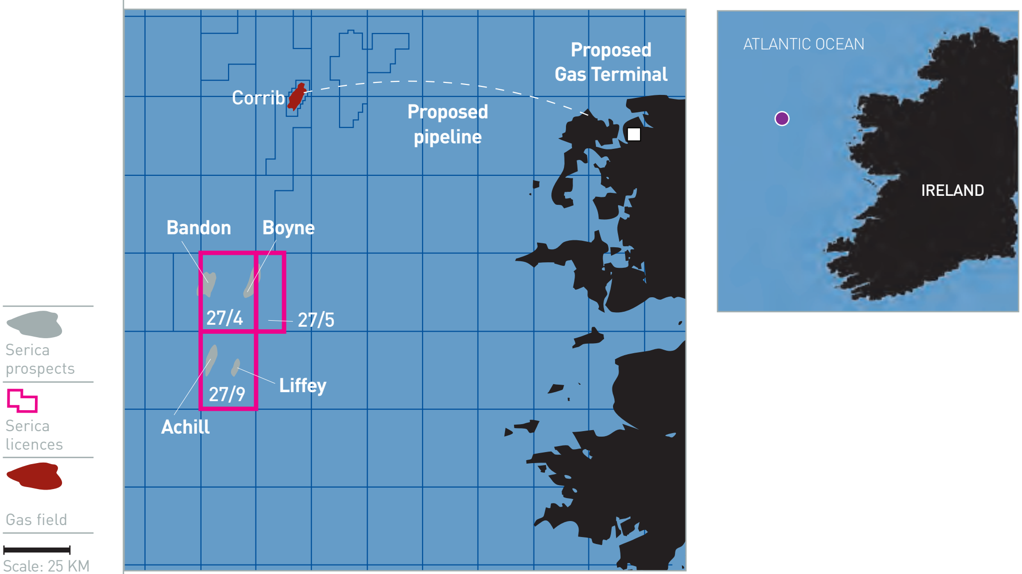
Serica has secured the Ocean Guardian semisubmersible drilling rig for the Bandon exploration well. The well will test the Triassic Sherwood sandstone reservoir, which is also the gas-bearing reservoir in the Corrib field.

Amplitude and Depth maps through the Bandon Prospect

The left hand map shows the seismic amplitude response of the Bandon prospect and the right hand map shows the depth structure. The amplitude response conforms to the depth structure and this improves the perceived chance of success. The Bandon wildcat exploration well was spudded on 11 May 2009 using the Ocean Guardian semisubmersible drilling rig.



Ireland Serica's blocks in the Slyne Basin 40km south of the Corrib field



Spain Serica's Spanish Permits and prospects

The results of the onshore 2D seismic survey in Serica's Spanish exploration acreage in the foothills of the Pyrenees has resulted in the identification of gas prospects that would potentially be commercial in this onshore environment. The prospects lie at shallow depths and would therefore be relatively inexpensive to drill and develop.

SPAIN

The Company holds a 75% interest and operatorship in the Abiego, Barbastro, Binéfar and Peraltilla Exploration Permits onshore northern Spain. The Permits cover an area of approximately 1,100 square kilometres between the Ebro Basin and the Pyrenees.

A 315 kilometre 2D seismic survey was completed in January 2008. The data from this survey is of high quality and, as a result, several prospects have been mapped at both shallow and deeper levels. The Spanish gas market would readily absorb any gas produced from the Permits and there is a main gas trunk pipeline in close proximity.

Although the survey has indicated potential drilling prospects, in order to allow more time to complete environmental and well planning studies, the government agreed to suspend the Permits for up to a year. A drill or drop decision must be made prior to November 2009 and Serica is seeking a farm-in partner.

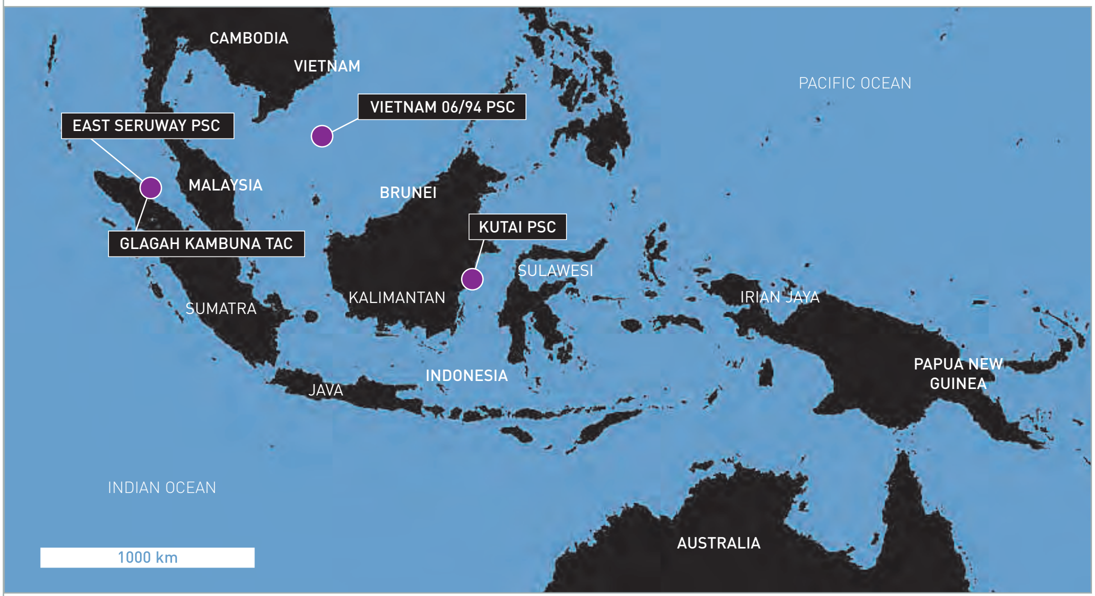
NORWAY

In June the Company reached agreement with Spring Energy Norway AS for the sale of Serica's non-core Norwegian business interests, comprising a 20% working interest in Norwegian offshore licences PL406 and PL407. Following the receipt of the required Norwegian government approvals, the transaction completed in November.

The consideration included repayment of past costs and a contingent cash payment to reflect the value of the Bream field at the time that the field is brought onto production. Under the terms of the transaction Serica has therefore retained a part of the potential value of the Bream field without being exposed to further appraisal and development costs or to the commitment of additional resources.

The Kambuna field topsides platform being lowered by crane onto the wellhead support in March 2009. This operation had the greatest operational risk in the Kambuna development programme and its successful completion was a significant milestone in the progress towards first production. The offshore and onshore pipelines have been commissioned and the offshore components of the development are now essentially complete.

REVIEW OF OPERATIONS SOUTH EAST ASIA



OVERVIEW

In South East Asia, Serica holds interests in Indonesia and in Vietnam.

INDONESIA

Glagah Kambuna TAC

The Glagah Kambuna Technical Assistance Contract ("TAC") covers an area of approximately 380 square kilometres and lies offshore North Sumatra. The Company now holds an interest of 50% following the sale of a 15% interest in the Kambuna TAC to Salamander Energy in August 2008 for a consideration of US$52.7 million. As planned, Salamander has also assumed the operatorship of the Kambuna TAC.

Significant progress was made towards the first production from the Kambuna field. Early in 2008 the Kambuna field production platform was installed and three development wells were drilled and tested with very positive results. The total maximum stabilised gas rate from the three wells was 114 million standard cubic feet per day ("mmscfd"), together with an estimated 8,000 barrels per day ("bpd") of condensate, giving a considerable margin of security for the average planned gas sales of 40 to 50 mmscfd.

Installation of the onshore and offshore sections of the 14-inch pipeline and the onshore receiving facilities were all well advanced and the pipeline was commissioned in 1Q 2009.

Final installation of the remaining equipment at the onshore facility continues including provision for handling the significant quantities of condensate that the field will produce. It is expected that production from the field will commence around mid year 2009.

The quality of the asset has been further demonstrated in a new reserves report on the Kambuna field carried out by consultants RPS Energy. This report estimates that the gross Proved plus Probable Reserves of the field are 133 bcf of sales gas and 11.6 mm bbl of condensate, a total of 39.3 mm boe, with an upside gross Proved plus Probable plus Possible Reserves of 62.5 mm boe.

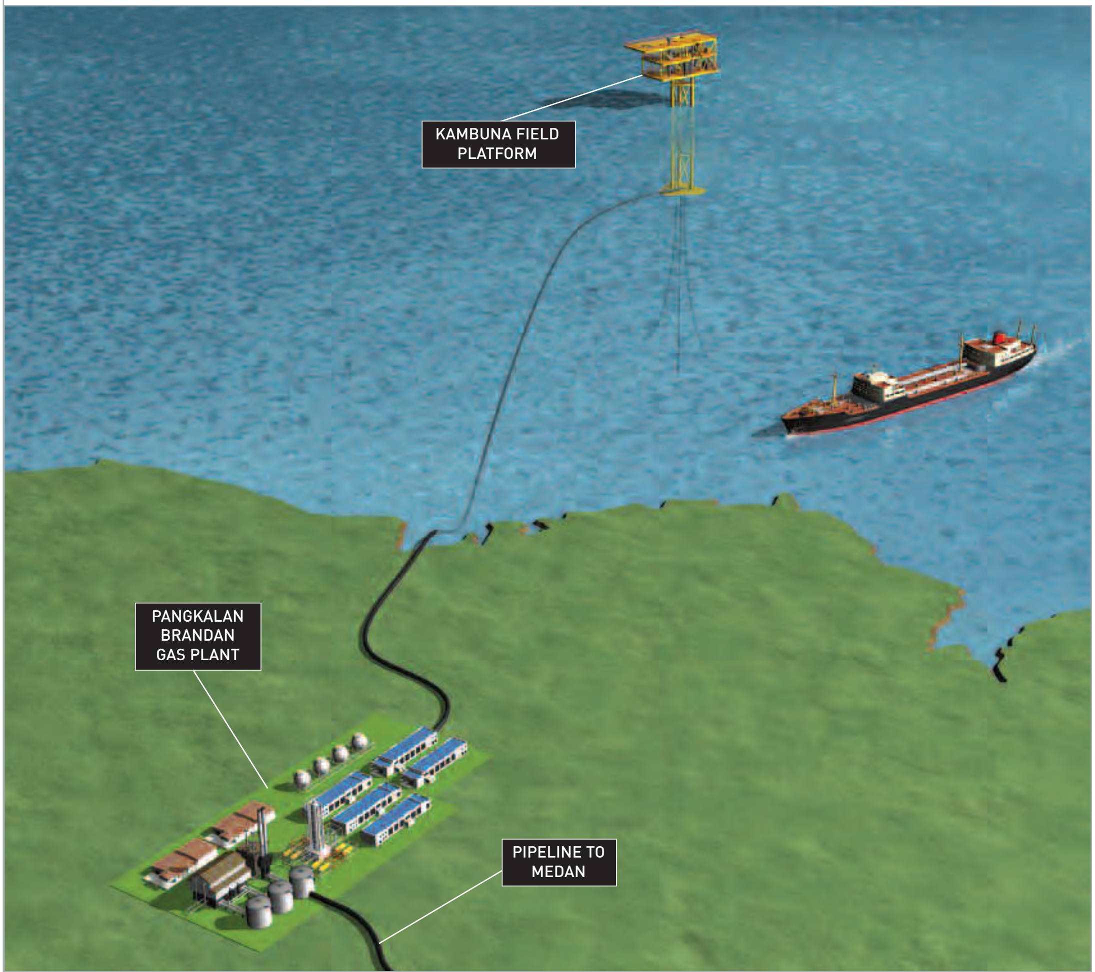
East Seruway PSC

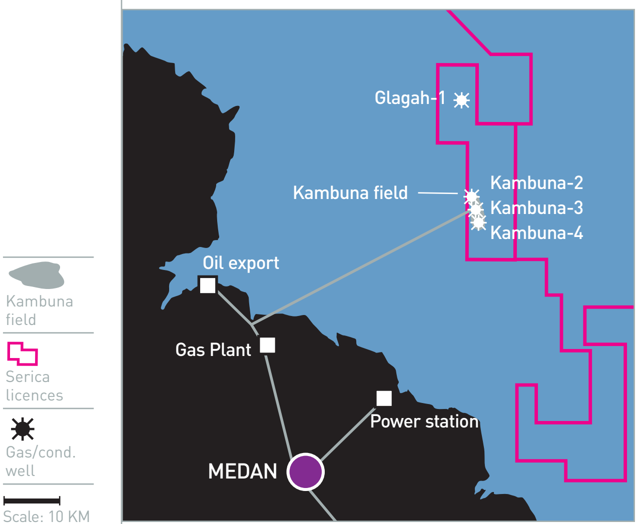
In October 2008, Serica was awarded the East Seruway PSC offshore north Sumatra, Indonesia. Serica is operator and holds a 100% interest in the PSC, which covers an area of approximately 5,864 sq km (2,264 sq miles) adjacent to the Glagah-Kambuna TAC and which is largely unexplored.

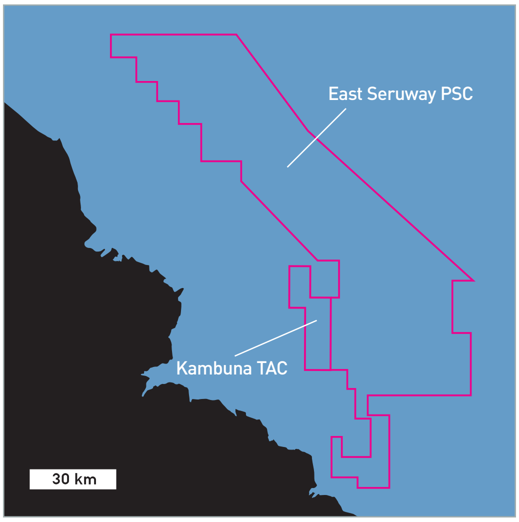
Serica has a detailed regional understanding of the offshore North Sumatra Basin having been a PSC operator there since 2003. The Company will acquire a new seismic survey to further define the exploration potential prior to drilling an exploration well in the block.

Kambuna field development

The Kambuna offshore gas field has been developed with three development wells, one vertical and two deviated from the central platform. The gas production from each well is controlled on the platform and the total field production is brought via a 14 inch pipeline to shore and to the gas processing plant at Pangkalan Brandan. There the gas and condensate are separated and the gas sold into the local market around Medan, the third largest city in Indonesia. The final stage of the Kambuna development is the commissioning of the gas plant, at which point gas and condensate sales can begin.







INDONESIA (continued)

Kutai PSC

Serica is the operator of the Kutai Production Sharing Contract ("PSC") and, following the announcement in February 2008 that it had acquired an additional 25.5% working interest, currently holds a 78% interest. This interest will reduce to 54.6% after completion of the transaction with Salamander Energy plc for the sale of a 23.4% interest in the PSC, as announced in July 2008. Completion is subject to certain approvals and consents, including that of the Indonesian government.

The PSC is divided into five blocks located in the prolific Mahakam River delta both onshore and offshore East Kalimantan, adjacent to several giant fields, including Tunu (1,600 million boe), Attaka (800 million boe) and Peciko (>1,000 million boe).

During 2008, the Company completed the acquisition of new 3D seismic data which has revealed an attractive amplitude driven prospect previously unidentified on the old 2D seismic data. The prospect lies in close proximity to the Peciko field and represents a new candidate for drilling in 2010. Further prospects have been defined adjacent to the Tunu and Attaka fields and also in a carbonate reef play fairway in the southern part of the acreage.

In the onshore part of the PSC, Serica is currently carrying out a 2D seismic survey to define structural prospects. During the seismic programme a number of oil seeps have been encountered, demonstrating the existence of a working petroleum system in the acreage.

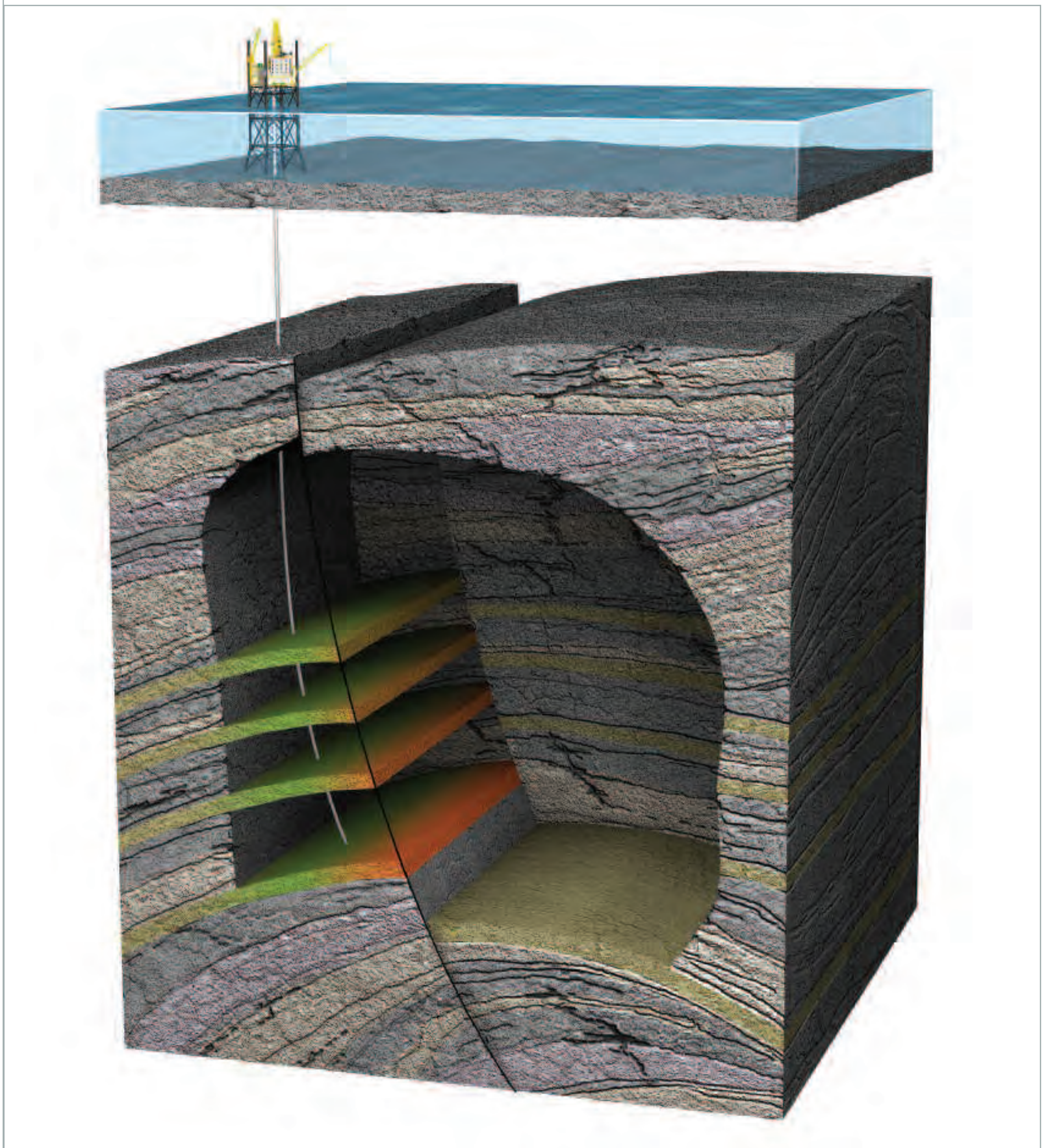
Biliton PSC

Serica's two-well exploration programme in the Biliton PSC in the Java Sea was completed in January 2008 and unfortunately neither well encountered hydrocarbons. The cost of the wells was largely carried by a farminee.

Having completed its post-well evaluation Serica sees little further potential in the area and withdrew from the Biliton PSC effective 29 December 2008. The Company is no longer carrying any book costs in respect of the Biliton PSC.

Analysis of the 3D seismic data in the Kutai PSC has identified a significant prospect called Dambus. The cutaway diagram illustrates the potential for multiple stacked reservoirs at Dambus that would contribute to the presence of potentially large reserves in a relatively small prospect area. The illustration shows the way in which an exploration well might be drilled at an angle ("deviated") from the vertical in order to intersect a number of reservoir sands at an optimum position.

Kutai PSC 3D cutaway illustration showing potential for multiple stacked reservoirs at Dambus prospect



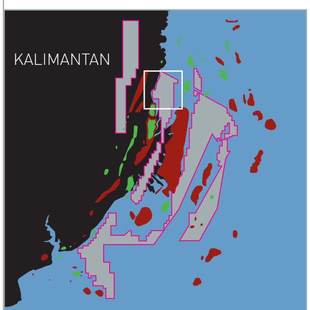
Dambus prospect

Kutai PSC

Oil field

Gas field

Scale: 50 KM



VIETNAM

Block 06/94 PSC

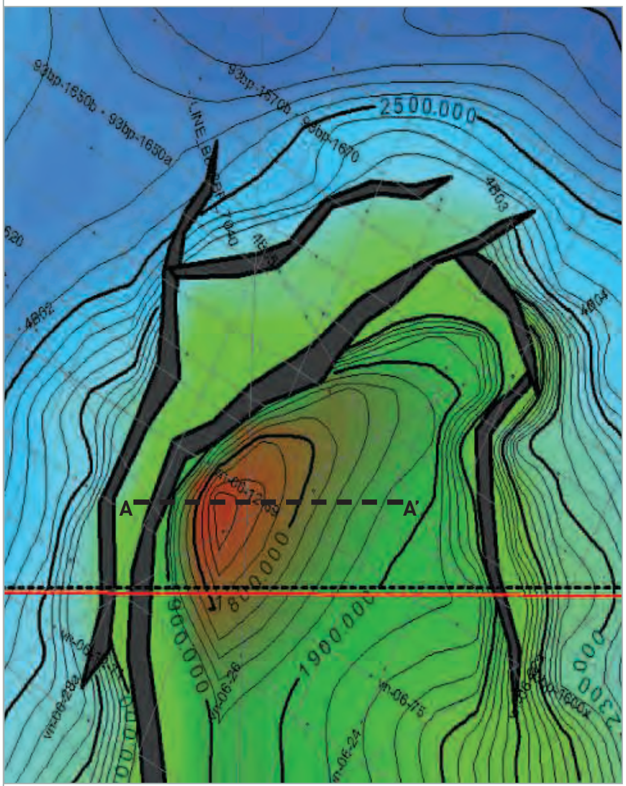
Serica has a 33.33% interest in the Block 06/94 PSC, which is operated by Pearl Energy and lies in the Nam Con Son Basin about 350 kilometres offshore South Vietnam. The block covers an area of approximately 4,100 square kilometres and is the part of Block 06/1 which British Petroleum (now BP) was obliged to relinquish in 1994 at the end of its contractual exploration period, after discovering the major Lan Tay and Lan Do gas fields. These fields commenced production in 2002 following the construction of a new gas and liquids pipeline to the Vietnamese mainland.

A 730 square kilometre 3D seismic survey was acquired in 2007 and a further 1,000 square kilometre 3D seismic survey was successfully completed in June 2008. Processing is ongoing to evaluate further the prospectivity of the acreage. The Ocean General semi-submersible drilling rig was contracted in 2008 and an exploration well on the Tuong Vi prospect, in the south-western part of the block, is due to be drilled in June 2009.

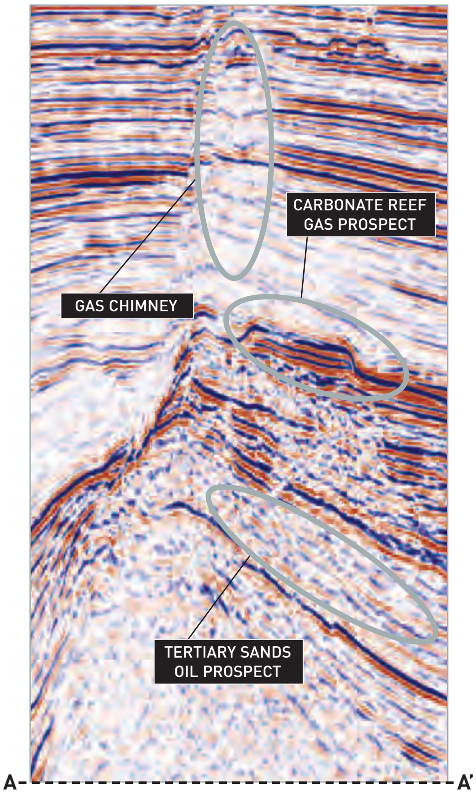
On 19 March 2009, the Company reached agreement with Australian Worldwide Exploration Limited on the terms of a farm-out of part of Serica's interest in the Block 06/94 PSC offshore Vietnam. The agreement is subject to the approval of the government of Vietnam. Under the agreement, the farminee will bear Serica's 33.33% share of the costs of the three well drilling programme in 2009 and 2010, subject to a financial cap, in order to earn an interest of 23.33% in the PSC, with Serica retaining a 10% interest.

Vietnam Block 06/94 the Tuong Vi prospect structure map and seismic section

The Ocean General semisubmersible drilling rig is expected to commence drilling the Tuong Vi prospect in May 2009. The prospect has two main targets – oil in the Tertiary sands and gas in the carbonate reef identified on the seismic data. Oil is the main priority here because, immediately to the west, Premier Oil is developing its Dua and Chim Sao fields using an offshore production system.



Scale: 1.5KM



Serica prospects

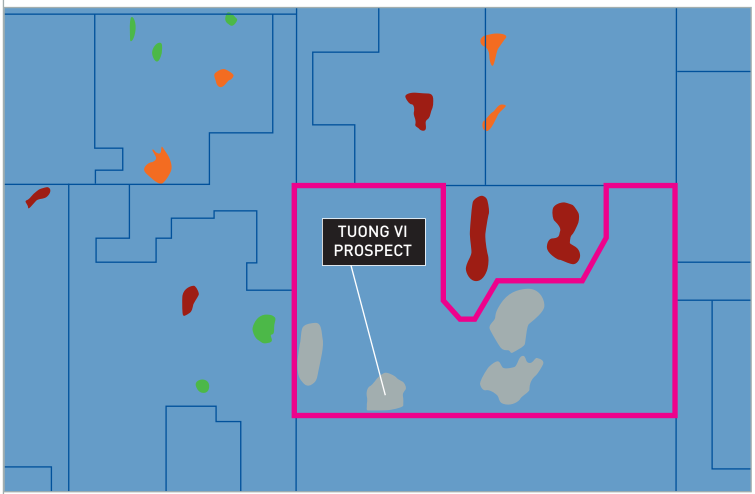
Serica licences

Oil field

Gas field

Cond. field

Scale: 20 KM



Part of the Kutai PSC is onshore and Serica is carrying out the first 2D seismic survey ever to cover parts of this area. The photograph shows members of the seismic crew carrying the equipment used to drill shot holes into which dynamite charges will be placed in order to create the sound energy on which the seismic recordings are based. The crew is walking on the “bridging” that it first constructs in order to provide a safe passage through the dense jungle terrain of East Kalimantan.

FINANCIAL REVIEW

The second half of 2008 saw the onset of worldwide recession, falls in oil prices and major withdrawals of capital from equity and debt markets. These events have provided particular challenges in the management of financial resources, and have also acted as a catalyst for the review and reconsideration of the underlying value of assets. These items are discussed in detail below, together with a review of the results of operations and other financial information.

FINANCIAL RESOURCES AND DEBT FACILITY

Serica's prime focus has been to deliver value through exploration success. To-date this has given rise to the Kambuna gas field development in Indonesia, with first production imminent, and the Columbus gas discovery in the UK North Sea, for which development plans have been submitted. The Company is soon to enjoy its first significant revenues, complementing its exploration activities with producing interests.

2008 financing developments

During 2008 the Company made significant progress in securing funding to advance its business prior to first gas revenues and operating cash inflows.

In January 2008 the Company announced the completion of a placing of 24,770,354 new ordinary shares on the AIM Market and the TSX-V in Canada. The total amount raised was approximately US$48.6 million after expenses.

The Company entered into a US$100 million senior secured debt facility with JPMorgan Chase Bank, N.A. and The Governor and Company of the Bank of Scotland in November 2007. This facility had an initial term of twelve months, with the Company having an option to extend for a further six months. During 2008 a third bank, Natixis, joined the consortium of lenders, and in November the extension option to May 2009 was taken up by the Company. In February 2009 a further extension of the facility until November 2009 was formally agreed.

Whilst exploration has been equity-financed, Kambuna development costs have been largely debt-financed. To mitigate the need for equity and to manage its overall financial exposures the Company's policy has been to farm down exploration wells prior to drilling. In addition it took the opportunity to crystallise significant value through the sale of a 15% interest in the Kambuna field for US$52.7 million in cash in the third quarter of last year, with Serica retaining a 50% interest in the field. The sale of the Company's interests in Norway where drilling and development costs had become prohibitive, whilst retaining upside in the Bream field, marks Serica's approach to managing the level of its financial exposures.

2009 and beyond

In the current business environment, access to new equity and debt remains uncertain. Consequently the Company has given priority to the careful management of existing financial resources. The completion of the Kambuna development and receipt of first field revenues will reweight the balance from investment to income generation. In addition its position as operator of most of its exploration interests leaves Serica well-placed where the timing of expenditure is concerned. Near-term exploration spend is mitigated through farm-down or deferral.

As of 24 April 2009, the Company's debt facility was US$45 million drawn down out of a total of US$100 million resulting in a net debt position of some US$7 million. In February 2009 the facility was extended until November 2009, when refinancing will be required. Further draw downs and ongoing expenditure are planned prior to refinancing. By this time revenues from the Kambuna field will have commenced putting the Company in a stronger financial position. Although the refinancing cannot be considered certain in the current environment, the recent extension of the debt facility demonstrates the strong relationship that the Company has formed with its major lenders. The option of further asset sales is also open to the Company.

FINANCIAL RESOURCES AND DEBT FACILITY CONTINUED

Overall, the part disposal of Kambuna for cash, the start of revenues from the retained Kambuna interest and the control that the Company can exert over the timing and cost of its exploration programmes both through operatorship and through successful farm-outs leave it well placed to manage its commitments through this difficult financial environment. Serica intends to continue taking a prudent approach to financial management so as to retain the strength that it has built to-date.

ASSET VALUES AND IMPAIRMENT

Recent financial and market turmoil has precipitated a world-wide reconsideration of the underlying value of assets. In Serica's case, its market capitalisation at 31 December 2008 stood at US$80 million (£55 million) based on a share price of 31 pence (as of 24 April 2009 its share price was 55 pence). As this was significantly exceeded by the net asset value reflected on the balance sheet date, management has conducted a thorough review of the carrying value of its assets. The key elements of its asset values are Property, Plant and Equipment and Exploration and Evaluation assets plus other assets including cash, and receivables.

Property, Plant and Equipment represents the cost of developing the Company's interest in the Kambuna gas field which is due to come on-stream later this year. The value of future income streams, underpinned by gas sales contracts, is projected to exceed booked costs by a significant margin and consequently no impairment indicator has been determined.

Exploration and Evaluation assets represent activities at an earlier stage in the investment cycle, for which the estimated value is necessarily subject to greater uncertainties including drilling risk, development risk and general commercial factors. These assets include Serica's Columbus gas discovery for which a development plan has been submitted, plus exploration and appraisal costs on its other licences. After conducting a review of Exploration and Evaluation assets, management has decided to write off costs to-date of US$6.1 million on its Spanish permits, US$6.1 million on its Oak discovery in the UK, and US$11.4 million of costs on its Chablis interest, also in the UK.

Although seismic surveys conducted on the Spanish permits in 2007/8 indicated potential drilling prospects, in the current economic climate Serica is prioritising other exploration activities. Management has decided to write off all costs to-date associated with exploration and evaluation of its four Spanish permits, totaling US$6.1 million, as no significant further expenditure is planned on the permits at this stage. The Company continues to seek a farminee to drill one of the gas prospects identified and has obtained a one year suspension of the permits.

In the UK North Sea the drilling in 2006 of well 54/1b-6 on the Oak prospect resulted in a discovery of gas containing significant quantities of carbon dioxide and nitrogen. Work continues to establish the development potential for this accumulation which would require substantial offshore processing facilities and thus would only be economic in conjunction with other similar discoveries in the area. As progress towards this is not within Serica's control, the Company has no plans to commit further expenditures on the block at this stage. Management has therefore decided to write-off all exploration and evaluation costs to-date on the block, totaling US$6.1 million. Serica's share of expenditures on the discovery well were reduced through farm down to Centrica, which bore the majority of the dry-hole costs.

Following the recent announcement of the result of its Chablis appraisal well, the Company has undertaken a review of the licence area. Although management considers that the licence continues to offer prospectivity, in view of the indeterminate outcome of the well and the challenging economic environment, Serica has decided not to allocate further funds to the exploration of this area. This will allow the deployment of funds to other prospects within its portfolio offering better near-term opportunities. Consequently, US$11.1 million of Exploration and Evaluation ("E&E") costs plus US$0.3 million of goodwill has been charged to the Income Statement in 2008.

The Company's other assets primarily comprise cash held with a range of financial institutions carrying a minimum of A-1 credit ratings, plus other receivables.

In summary management has concluded that net assets of US$165.5 million, after these write-downs, are fully supported and that the shortfall against its current market value (approximately US$140 million as at 24 April 2009) reflects the broader financial turmoil and the withdrawal of investors from the markets. The Company is in a position to tailor the level of its investments to the funds available and consequently to protect the value of its assets during this period of turbulence. It also draws comfort from the healthy forward markets for oil and gas.

RESULTS OF OPERATIONS

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").

Serica generated a loss of US$1.0 million for 2008 compared to a loss of US$13.6 million for 2007.

	2008 US$000	2007 US$000
Sales revenue	-	-
Expenses:		
Administrative expenses	(8,628)	(7,813)
Foreign exchange (loss)/gain	(370)	394
Pre-licence costs	(1,150)	(287)
Asset write offs	(24,034)	(9,282)
Share-based payments	(1,781)	(1,962)
Depreciation and depletion	(146)	(149)
Operating loss before net finance revenue and tax	(36,109)	(19,099)
Profit on disposal	36,620	-
Finance revenue	1,823	2,669
Finance costs	(3,138)	(321)
Loss before taxation	**(804)**	**(16,751)**
Taxation credit for the year	228	432
Loss for the year from continuing operations	(576)	(16,319)
Discontinued operations		
(Loss)/profit for the year from discontinued operations	(395)	2,690
Loss for the year	**(971)**	**(13,629)**
Loss per ordinary share (LPS)		
Basic and diluted LPS – continuing operations (US$)	(0.003)	(0.108)
Basic and diluted LPS on loss for the year (US$)	(0.006)	(0.090)

RESULTS OF OPERATIONS CONTINUED

Administrative expenses of US$8.6 million for 2008 increased from US$7.8 million for 2007 and reflect the growing scale of the Company's activities over the past twelve months, albeit a less significant growth than from 2006 to 2007. The Company incurred higher levels of cost on various transactions and other corporate activity in 2008 which more than offset any US$ equivalent cost reduction of those general administrative costs incurred in £ sterling, which fell as the US$ strengthened in the second half of 2008.

The overall impact of foreign exchange is not significant in 2008 or 2007. Foreign exchange losses were incurred during the second half of 2008 following the strengthening of the US$ against the £ sterling and the Norwegian Kroner, and its impact on the US$ equivalent of cash deposits and other recoverables denominated in those currencies. These losses were partially offset by foreign exchange gains booked on the US$ equivalent of the £ sterling element of a loan draw-down.

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. During 2008 significant work was undertaken on the UK 25th Licencing Round from which the Company has been awarded interests in three licences. This activity has largely caused the increase in expense of US$0.9 million from US$0.3 million in 2007 to US$1.2 million in 2008. Pre-licence expense has been incurred at similar levels in South East Asia in 2007 and 2008.

Asset write offs in 2008 of US$24.0 million related to the Chablis (US$11.4 million), Oak (US$6.1 million) and Spain assets (US$6.1 million) in Q4 2008 and Biliton asset (US$0.4 million) in Q1 2008. The aggregate asset write off was split in respect of E&E assets (US$23.2 million), Goodwill (US$0.4 million) and other assets (US$0.4 million). The asset write offs of US$9.3 million during 2007 comprised US$9.0 million of Biliton PSC costs and US$0.3 million from relinquished licences in the UK.

Share-based payment costs of US$1.8 million reflect allocations of charges related to share option grants made during the course of 2005, 2006, 2007 and 2008 and compare with costs of US$2.0 million for 2007. The decline in the charge for options granted in 2005, 2006 and 2007 has generally offset the incremental charge generated from further share options granted in March and November 2008.

Negligible depletion and depreciation charges in all periods represent office equipment and fixtures and fittings. Those costs of petroleum and natural gas properties classified as exploration and evaluation assets are not currently subject to such charges pending further evaluation. The balance of Kambuna development costs is held within plant, property and equipment and will be depleted once production commences.

In August 2008 the Company completed the sale of a 15% interest in the Glagah Kambuna TAC to a subsidiary of Salamander Energy plc ('Salamander') for consideration of US$52.7 million including working capital. This disposal generated a profit of US$36.6 million after deducting the relevant proportional element of book development costs.

Finance revenue, comprising interest income of US$1.8 million for 2008, compares with US$2.7 million for 2007. The decrease from last year is due to both a reduction in average cash deposit balances held through the respective years and reduced average interest rate yields earned in 2008.

Finance costs consist of interest payable, issue costs spread over the term of the bank loan facility, and other fees. The first drawdown on the senior secured debt facility occurred soon after the facility was arranged in Q4 2007 and a second drawdown occurred in June 2008. The increase of US$2.8 million from US$0.3 million in 2007 to US$3.1 million in 2008 results from a full year of costs being charged in 2008 following the facility arrangement late in 2007.

The net taxation credit from continuing operations was US$0.2 million in 2008 and US$0.4 million in 2007. Expenditures during 2005, 2006, 2007 and 2008 have reduced any potential current income tax expense arising for 2006, 2007 and 2008 to US$ nil.

The results from discontinued operations arise following the disposal of the Company's Norwegian activities noted above. The accounting profit in 2007 was largely generated from tax recoveries recognised in the period.

The net loss per share of US$0.01 for 2008 compares to a net loss per share of US$0.09 for 2007.

SUMMARY OF QUARTERLY RESULTS

Quarter ended:	31 Mar US$000	30 Jun US$000	30 Sep US$000	31 Dec US$000
2008				
Sales revenue	-	-	-	-
(Loss)/profit for the quarter	(3,326)	(4,275)	33,516	(26,886)
Basic and diluted loss per share US$	(0.02)	(0.02)	-	(0.16)
Basic earnings per share US$	-	-	0.19	-
Diluted earnings per share US$	-	-	0.19	-
2007				
Sales revenue	-	-	-	-
(Loss)/profit for the quarter	(1,595)	(1,587)	1,237	(11,684)
Basic and diluted loss per share US$	(0.01)	(0.01)	-	(0.08)
Basic earnings per share US$	-	-	0.01	-
Diluted earnings per share US$	-	-	0.01	-

The fourth quarter 2008 loss includes asset write offs of US$23.6 million in regard to the Chablis, Oak and Spain assets.

The third quarter 2008 profit includes a profit of US$36.6 million generated on the disposal of a 15% interest in the Kambuna field.

The fourth quarter 2007 loss includes asset write offs of US$9.0 million in regard to the Biliton PSC.

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES

Current Assets and Liabilities

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

	31 December 2008 US$000	31 December 2007 US$000
Current assets:		
Inventories	4,618	6,991
Trade and other receivables	7,069	21,906
Tax receivable	-	3,387
Cash and cash equivalents	56,822	22,638
Total Current assets	**68,509**	**54,922**
Less Current liabilities:		
Trade and other payables	(14,599)	(23,604)
Financial liabilities	(32,105)	-
Net Current assets	**21,805**	**31,318**

At 31 December 2008, the Company had net current assets of US$21.8 million which comprised current assets of US$68.5 million less current liabilities of US$46.7 million, giving an overall decrease in working capital of US$9.5 million in the year.

Inventories decreased from US$7.0 million to US$4.6 million over the year as materials were utilised in the Kambuna drilling programme and the Company reduced its working interest in the joint venture balances held.

Trade and other receivables at 31 December 2008 totalled US$7.1 million, and included recoverable amounts from partners in Joint Venture operations in the UK and Indonesia, prepayments and sundry UK and Indonesian working capital balances. Significant amounts due as at 30 September 2008 from the Kutai disposal (US$2.7 million) and Chablis farm-out (US$1.6 million) were recovered in Q4 2008. The 2007 year end balance of US$21.9 million included a US$9.4 million upfront deposit payment for the Global Santa Fe drilling rig for Indonesian operations, which was utilised during the 2008 Indonesian drilling campaign and accounts for a significant proportion of the US$14.8 million decrease in balance over the year.

The tax receivable as at 31 December 2007 represented expected recovery of exploration expenditure from the Norwegian fiscal authorities, which was received in full in December 2008.

Cash and cash equivalents increased from US$22.6 million to US$56.8 million in the year. The Company raised additional new funds in Q1 2008 of US$48.6 million through the issue of shares, received US$25.0 million in further draw-downs on its loan facility and received US$52.7 million from the Kambuna disposal in Q3 2008. These cash inflows were partially offset by the significant capital expenditure on the Kambuna development and appraisal drilling in the UK on Chablis. Other cost was incurred on exploration work across the portfolio in South East Asia and the UK and Ireland, together with ongoing administrative costs, operational expenses and corporate activity.

Trade and other payables of US$14.6 million at 31 December 2008 chiefly include significant trade creditors and accruals from the Kambuna development and Chablis appraisal well drilling. Other smaller items include sundry creditors and accruals for administrative expenses and other corporate costs.

Financial liabilities are represented by the first drawdown of approximately £5.0 million under the senior secured debt facility, which occurred in Q4 2007, and second drawdown of US$25.0 million in June 2008. The total is disclosed net of the unamortised portion of allocated issue costs.

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

	31 December 2008 US$000	31 December 2007 US$000
Exploration and evaluation assets	69,711	71,874
Property, plant and equipment	68,526	19,543
Goodwill	295	768
Financial assets	1,500	4,680
Long-term other receivables	3,945	1,224
Financial liabilities	-	(9,582)
Deferred income tax liabilities	(295)	(3,910)

During 2008, total investments in petroleum and natural gas properties, excluding property, plant and equipment and represented by exploration and evaluation assets, decreased from US$71.9 million to US$69.7 million. The net US$2.2 million decrease consists of US$27.2 million of additions (net of disposal proceeds and back costs received from Kutai and Chablis), less US$23.3 million of Spain, Chablis and Oak asset write offs and US$6.1 million of Norwegian assets disposed.

The US$27.2 million of additions were incurred on the following assets:

In South East Asia, US$7.2 million was incurred in Vietnam on a seismic survey and preparations for drilling, US$3.8 million was incurred on seismic, exploration work and G&A on the Kutai concession in Indonesia and US$1.0 million on East Seruway.

In the UK & Western Europe, US$8.0 million was spent on the Chablis site survey and appraisal drilling, US$4.3 million of expenditure was incurred in other UK and Ireland assets on exploration work and G&A, including the Columbus FDP. US$1.2 million of expenditure related to Spain and US$1.7 million to Norway in 1H 2008 prior to the announcement of the Norwegian interest disposal.

During 2008, total investments included in property, plant and equipment increased from US$19.6 million to US$68.5 million. The US$48.9 million increase is caused by US$62.6 million of additions on the Kambuna development less a deduction of the proportionate share of Kambuna book costs (as at the effective date of the disposal of the part interest of 15%). The property, plant and equipment also includes immaterial balances of US$0.3 million for 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, decreased by US$0.5 million following the partial disposal of the Kambuna interest (US$0.1 million) and Chablis and Spain write offs of US$0.3 million and US$0.1 million respectively.

Financial assets include US$1.5 million of restricted cash deposits. The US$4.7 million of restricted cash deposits, classified as financial assets as at Q4 2007, are now included within cash and cash equivalents as during Q3 2008 the applicable restrictions for use were lifted during the quarter.

Long-term other receivables of US$3.9 million are represented by value added tax ("VAT") on Indonesian capital spend, which will be recovered from future production.

Financial liabilities represented by draw-downs under the senior secured debt facility are now classified in current liabilities.

The retained deferred income tax liability of US$0.3 million arises in respect of certain capitalised assets retained in the group. Liabilities previously recognised as arising from capitalised Norwegian exploration and evaluation assets were reclassified at Q2 2008 as part of the disposal group held for sale. These items were cleared in Q4 2008 following completion of the Norwegian transaction noted above.

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

	31 December 2008 US$000	31 December 2007 US$000
Total share capital	207,633	158,871
Other reserves	15,510	13,729
Accumulated deficit	(57,656)	(56,685)

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

Issued share capital during 2008 was increased by the issue of 19,826,954 ordinary shares at £1.02 and 4,943,400 at Cdn$2.10, and by the issue of 100,000 ordinary shares at Cdn$1.80 following the exercise of share options.

Other reserves mainly include amounts credited in respect of cumulative share-based payment charges. The increase in other reserves from US$13.7 million to US$15.5 million reflects a credit to equity in respect of share-based payment charges in 2008.

Capital Resources

Lease commitments
At 31 December 2008, Serica had US$21.8 million of net working capital, no long-term debt and no capital lease obligations. At that date, the Company had commitments to future minimum payments under operating leases in respect of rental office premises, office equipment and motor vehicles for each of the following years as follows:

	US$000
31 December 2009	328
31 December 2010	72

Capital expenditure commitments, obligations and plans

The Company's most significant planned capital expenditure commitments for 2009 are those required to fund the development activity of the Kambuna field. As at 31 December 2008, the Company's share of expected outstanding capital costs on the project totalled approximately US$50 million. These expected costs include amounts contracted for but not provided in 2008. It is fully expected that these expenditures will be funded from the debt facility as and when draw-downs are required.

In the UK and NW Europe, the Chablis appraisal well spudded in December 2008 and drilling completed in January 2009. As at 31 December 2008 the Company's share of outstanding capital costs in respect of Chablis drilling totalled approximately US$6 million.

In addition to the significant planned expenditures noted above, the Company also has obligations to carry out defined work programmes on its oil and gas properties, under the terms of the award of rights to these properties, over the next two years as follows:

Year ending 31 December 2009 US$2,518,000
Year ending 31 December 2010 US$16,400,000

These obligations reflect the Company's share of interests in the defined work programmes and were not formally contracted at 31 December 2008. The Company is not obliged to meet other joint venture partner shares of these programmes. The most significant obligations are in respect of the Kutai PSC in South East Asia, and drilling is expected to commence in 2010. Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK and South East Asia.

Available financing resources

Serica expects that it will shortly enjoy its first significant revenues and operational cash inflows from the Kambuna field which will be important to the future growth and development of the Company. In the absence of revenues currently generated from oil and gas production, Serica intends to utilise its existing cash balances together with the currently available portion of the US$100 million senior secured debt facility, to fund the immediate needs of its investment programme and ongoing operations. At 31 December 2008, the Group had available approximately US$85 million of committed borrowing facilities for which all conditions precedent had been met, of which US$32 million had been drawn down and US$53 million was undrawn. The most significant part of the facility, which included a corporate element of US$10 million, was to fund the development expenditures, particularly on the Kambuna field. The ability to draw down under the facility for development is determined both by the achievement of milestones on the relevant project and also by the availability calculated under a projection model. On the Kambuna field the key milestones for 2008 were gas sales heads of agreement being in place, compliance with environmental policy, and commercial construction contracts agreed for the relevant stages of development all of which were achieved and US$25 million was drawn in June of that year. In March 2009, a further US$13 million draw down was made and as at 24 April 2009 the total loan drawn down was US$45 million.

At 31 December 2008 availability of more than US$85 million under the facility was dependent on the achievement of relevant conditions precedent and projections for development assets within the Group's portfolio and forecasts of commodity prices.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

The Company's significant accounting policies are detailed in note 2 to the attached audited 2008 financial statements. International Financial Reporting Standards have been adopted. The costs of exploring for and developing petroleum and natural gas reserves are capitalised and the capitalisation and any write off of E&E assets necessarily involve certain judgments with regard to whether the asset will ultimately prove to be recoverable. A key source of estimation uncertainty that impacts the Company relates to the impairment of the Company's assets. Oil and gas properties are subject to periodic review for impairment whilst goodwill is reviewed at least annually. Recoverable amounts can be determined based upon risked potential, or where relevant, discovered oil and gas reserves. In each case, recoverable amount calculations are based upon estimations and management assumptions about future outcomes, product prices and performance.

Financial Instruments

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

Serica has exposure to interest rate fluctuations on its cash deposits and its bank loans; given the level of expenditure plans over 2009/10 this is managed in the short-term through selecting treasury deposit periods of one to three 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.

Serica retains certain cash holdings and other financial instruments relating to its operations, limited to the levels necessary to support those operations. The US$ reporting currency value of these may fluctuate from time to time causing reported foreign exchange gains and losses. Serica maintains a broad strategy of matching the currency of funds held on deposit with the expected expenditures in those currencies. Management believes that this mitigates much of any actual potential currency risk from financial instruments. Loan funding is available in US Dollars and Pounds Sterling and is drawn-down in the currency required.

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

SHARE OPTIONS

As at 31 December 2008, the following employee share options were outstanding:

	Expiry Date	Number	Exercise cost Cdn$
Share options	Feb 2009*	247,500	495,000
	May 2009	100,000	200,000
	Dec 2009	275,000	275,000
	Jan 2010	600,000	600,000
	Jun 2010	1,100,000	1,980,000
			Exercise cost £
	Nov 2010	561,000	544,170
	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	1,077,120
	May 2012	405,000	421,200
	Aug 2012	1,200,000	1,182,000
	March 2013	1,812,000	1,359,000
	March 2013	850,000	697,000
	October 2013	750,000	300,000

* Note: Expired as at 27 April 2009

In January 2009 750,000 share options were granted to certain employees other than directors with an exercise cost of £0.32 and an expiry date of January 2014.

OUTSTANDING SHARE CAPITAL

As at 24 April 2009, the Company had 176,518,311 ordinary shares issued and outstanding.

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. Principal risks can be classified into four main categories: operational, commercial, regulatory and financial.

Operational risks include drilling complications, delays and cost over-run on major projects, well blow-outs, failure to encounter hydrocarbons, construction risks, equipment failure and accidents. Commercial risks include access to markets, access to infrastructure, volatile commodity prices and counterparty risks. Regulatory risks include governmental regulations, licence compliance and environmental risks. Financial risks include access to equity funding and credit.

In addition to the principal risks and uncertainties described herein, the Company is subject to a number of other risk factors generally, a description of which is set out in our latest Annual Information Form available on www.sedar.com.

KEY PERFORMANCE INDICATORS ("KPIS")

The Company's main business is the acquisition of interests in prospective exploration acreage, the discovery of hydrocarbons in commercial quantities and the crystallisation of value whether through production or disposal of reserves. The Company tracks its non-financial performance through the accumulation of licence interests in proven and prospective hydrocarbon producing regions, the level of success in encountering hydrocarbons and the development of production facilities. In parallel, the Company tracks its financial performance through management of expenditures within resources available, the cost-effective exploitation of reserves and the crystallisation of value at the optimum point.

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 year ended 31 December 2008 generated a loss of US$0.6 million from continuing operations, but expects that it will shortly earn its first revenues from the Kambuna field. At 31 December 2008 the Company held cash and cash equivalents of US$56.8 million and a financial asset of restricted cash of US$1.5 million. The Company intends to utilise its existing cash balances together with the currently available portion of the US$100 million senior secured debt facility, to fund the immediate needs of its investment programme and ongoing operations. Further details of the Company's financial resources and debt facility are given above in the Financial Review in this M,D&A.

ADDITIONAL INFORMATION

Additional information relating to Serica, including the Company's annual information form, 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
27 April 2009

Christopher Hearne – Finance Director

FORWARD LOOKING STATEMENTS

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

DIRECTORS' REPORT

The Directors of the Company present their report and the Group financial statements of Serica Energy plc ("Serica" or the "Company") for the year ended 31 December 2008.

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

Business Review and Future Developments
A review of the business and the future developments of the Group, including the principal risks and uncertainties, is presented in the Chairman's Statement, and in the Management's Discussion and Analysis, which includes the Chief Executive Officer's Report, the Review of Operations and the Financial Review (all of which, together with the Corporate Governance Statement, are incorporated by reference into this Directors' Report).

Results and Dividends
The loss for the year was US$971,000 (2007: loss US$13,629,000).

The Directors do not recommend the payment of a dividend (2007: US$nil).

Financial Instruments
The Group's financial risk management objectives and policies are discussed in the Financial Instruments section of the Management's Discussion and Analysis and in note 24.

Events Since Balance Sheet Date
On 19 March 2009, the Company reached agreement with Australian Worldwide Exploration Limited ("AWE") on the terms of a farm-out of part of Serica's interest in the Block 06/94 Production Sharing Contract offshore Vietnam ("the PSC"). The agreement is subject to the approval of the government of Vietnam. Under the agreement, AWE will bear Serica's 33.33% share of the costs of the three well drilling programme in the PSC, subject to a financial cap, in order to earn an interest of 23.33% in the PSC, with Serica retaining a 10% interest.

Other events since the balance sheet date are included in note 31.

Directors and their Interests
The following Directors have held office in the Company since 1 January 2008:

Antony Craven Walker
Paul Ellis
Christopher Hearne
Peter Sadler – Appointed 28 November 2008
Neil Pike
Ian Vann
Steven Theede
Jonathan Cartwright – Appointed 27 March 2008

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

	Class of share	Interest at end of year	Interest at start of year or date of appointment (if later)
Antony Craven Walker (1)	Ordinary	5,704,473	4,765,626
Paul Ellis (2)	Ordinary	850,000	350,000
Christopher Hearne	Ordinary	710,551	600,551
Peter Sadler	Ordinary	-	-
Neil Pike (3)	Ordinary	405,000	350,000
Ian Vann	Ordinary	89,262	9,752
Steven Theede	Ordinary	749,485	511,385
Jonathan Cartwright	Ordinary	20,000	-

1. 3,513,349 ordinary shares are held by Antony Craven Walker, 1,548,003 ordinary shares are held by Christine Elizabeth Walker and 643,121 by Rathbones (ACW pension fund).

2. 300,000 ordinary shares are held by Rowanmoor Trustees (pension fund).

3. 260,000 ordinary shares are held by Neil Pike, 55,000 ordinary shares are held by Romayne Pike and 90,000 ordinary shares by Luska Limited.

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

No rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year except as indicated below:

The Directors are interested in share options held by them pursuant to the terms of the Serica Energy Corporation option plan (a summary of which is set out in note 27) as follows:

	1/1/08	Granted	Expired	31/12/08	Exercise Price Cdn$	Date of grant	Expiry date
A Craven Walker	200,000	-	(200,000)	-	1.80	15/06/05	14/06/08
P Ellis	1,000,000	-	-	1,000,000	1.80	15/06/05	14/06/10
C Hearne	600,000	-	-	600,000	1.00	17/01/05	16/01/10
	100,000	-	-	100,000	1.80	15/06/05	14/06/10
N Pike	100,000	-	(100,000)	-	1.80	15/06/05	14/06/08

Other than in the case of options granted to Antony Craven Walker and Neil Pike which expired during the year, the above unexpired share options were granted on the basis that the options vest as to one third on each of the first, second and third anniversaries of grant.

The following Directors are also interested in share options held by them pursuant to the terms of the Serica Energy plc Share Option Plan 2005 ("Serica 2005 Option Plan") (a summary of which is set out in note 27) as follows:

	1/1/08	Granted	Exercised	31/12/08	Exercise Price £	Date of grant	Expiry date
P Ellis	110,000	-	-	110,000	0.97	23/11/05	22/11/10
	-	500,000	-	500,000	0.82	31/03/08	30/03/13
C Hearne	110,000	-	-	110,000	0.97	23/11/05	22/11/10
	-	350,000	-	350,000	0.82	31/03/08	30/03/13
P Sadler	-	750,000	-	750,000	0.40	28/10/08	27/10/13
A Craven Walker	300,000	-	-	300,000	0.985	10/08/07	10/08/12
N Pike	300,000	-	-	300,000	0.985	10/08/07	10/08/12
I Vann	300,000	-	-	300,000	0.985	10/08/07	10/08/12
S Theede	300,000	-	-	300,000	0.985	10/08/07	10/08/12

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

Directors may only exercise those options granted in November 2005 and held pursuant to the terms of the Serica 2005 Option Plan on condition that the Serica share price on a 30 day moving average basis prior to 23 November 2009 has reached at least 200p.

Directors may only exercise those options granted in August 2007 and held pursuant to the terms of the Serica 2005 Option Plan on the following conditions:

1. For the first and second tranches, the Serica share price on a 30 day moving average basis prior to 10 August 2009 has reached at least 150p or, if not, has satisfied condition 2,

2. For all tranches, the Serica share price on a 30 day moving average basis prior to 10 August 2010 has reached at least 175p or prior to 10 August 2011 has reached at least 200p.

Directors may only exercise those options granted in March 2008 and held pursuant to the terms of the Serica 2005 Option Plan on the following conditions:

1. For the first and second tranches, the Serica share price on a 30 day moving average basis prior to 31 March 2010 has reached at least 150p or, if not, has satisfied condition 2,

2. For all tranches, the Serica share price on a 30 day moving average basis prior to 31 March 2011 has reached at least 175p or prior to 31 March 2012 has reached at least 200p.

The Director may only exercise those options granted in October 2008 and held pursuant to the terms of the Serica 2005 Option Plan on condition that certain operational targets are met.

Major Interest in Shares

The Company has been notified of the following interests representing 3% or more of the voting rights in the Company as at 24 April 2009:

	No of shares	Percentage holding
ZZZ Canada Control account c/o Capita Registrars	37,432,444	21.2
Caledonia Investments	25,501,736	14.4
Fidelity International Ltd	23,021,998	13.0
AXA Framlington	10,226,501	5.8
Cede & Co	8,509,497	4.8
Cenkos	8,468,654	4.8
JP Morgan Asset Management	7,291,271	4.1
Mr A Craven Walker	5,704,473	3.2

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

Supplier Payment Policy and Practice

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

At 31 December 2008, the Company had an average of 23 days' purchases owed to trade creditors (2007: 21 days).

Auditor

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

Directors' statement as to disclosure of information to auditors

The directors who were members of the Board at the time of approving the Directors' Report are listed above. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and

- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and establish that the Company's auditors are aware of that information.

On behalf of the Board

Christopher Hearne
Director
27 April 2009

Serica Energy plc

CORPORATE GOVERNANCE

The Board of Directors fully endorses the importance of sound corporate governance. Serica is incorporated in the United Kingdom with its shares traded on both the AIM market of the London Stock Exchange ("AIM") and the TSX Venture Exchange in Canada ("TSX-V"). Each of these two markets has established guidelines for good corporate governance practice.

The code of practice followed for companies incorporated in the United Kingdom and listed on the Main Market of the London Stock Exchange is set out in the Combined Code on Corporate Governance (the "Combined Code"). As a Company whose shares are traded on the AIM market, the Company is not required to, and does not, comply fully with the Combined Code. Nevertheless, the Board endeavours to follow the principles set out in the Combined Code wherever it considers it to be appropriate.

The corporate governance guidelines applying to reporting issuers in Canada are set out under Ontario Securities Commission National Policy 58-201 (the "Corporate Governance Guidelines"). As the Company is quoted on the TSX-V market as well as on the AIM market it endeavours to meet the principles of both the Corporate Governance Guidelines and the Combined Code.

Further information regarding the Company's corporate governance practices can be found in the Company's management information circular dated 19 May 2008, a copy of which is available on SEDAR at www.sedar.com

The disclosures below explain the composition of, role and responsibilities of the Board and the Board Committees.

The Board and its Committees

The Board of the Company consists of three Executive Directors and five non-Executive Directors, including the non-Executive Chairman of the Board, and is considered to be of sufficient size and balance of skills and experience appropriate for a company of Serica's size, stage of development and business. All the non-Executive directors are independent in character and judgement and have the range of experience and calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group.

The Board retains full and effective control over the Company. The Company holds regular Board meetings at which financial and other reports are considered and, where appropriate, voted on. In addition to these meetings, further meetings are arranged when necessary to review strategy, planning, operational, financial performance, risk and capital expenditure and human resource and environmental management. The Board is also responsible for monitoring the activities of the executive management. The Chairman of the Board has the responsibility of ensuring that the Board discharges its responsibilities. In the event of an equality of votes at a meeting of the Board, the Chairman has a second or casting vote.

All of the non-Executive Directors are independent directors within the meaning set out in the Corporate Governance Guidelines (given in more detail in Ontario Securities Commission Multilateral Instruments 58-101 and 52-110). Other than in respect of the small number of share options held by each of the non-Executive directors except Jonathan Cartwright and, in the case of Jonathan Cartwright, his position as an executive director of Caledonia Investments plc, the Company's largest shareholder, all of the non-Executive Directors meet the requirements of independence prescribed in the Combined Code. It is the opinion of the Board that the granting of a limited number of share options to non-Executive directors, as is common practice in Canada, is entirely appropriate for a Company of Serica's size and stage of development and that none of these factors prejudice the ability of the non-Executive directors to act independently of management.

The Board believes that there is an adequate balance between the non-Executive and Executive Directors, both in number and in experience and expertise, to ensure that the Board operates independently of executive management. The Board generally has at least ten regularly scheduled meetings in each financial year. Additional meetings are held depending upon opportunities or issues to be dealt with by the Company from time to time. The non-Executive Directors hold several informal meetings during the course of the year at which members of management are not in attendance. Individual Directors may engage outside advisors at the expense of the Company upon approval by the Board in appropriate circumstances.

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

Corporate Governance and Nomination Committee
The Corporate Governance and Nomination Committee is responsible for the Company's observation of the Combined Code, the Corporate Governance Guidelines where they apply to the Company, to the rules of AIM and the TSX-V and for other corporate governance matters, including compliance with the Company's Share Dealing Code and with AIM and TSX-V in respect of dealings by directors or employees in the Company's shares. The committee is responsible for monitoring the effectiveness of the Board and its Committees, proposing to the Board new nominees for election as Directors to the Board, determining successor plans for the Chairman and Chief Executive and for assessing directors on an ongoing basis. The committee proposes to meet three times during the next financial year.

The Corporate Governance and Nomination Committee is comprised of three non-Executive directors all of whom are independent (other than as described in "The Board and its Committees" above). It is chaired by Antony Craven Walker and its other members are Neil Pike and Jonathan Cartwright.

Audit Committee
The Audit Committee meets at least quarterly and consists of not fewer than three members, all of whom are non-Executive Directors and independent (other than as described in "The Board and its Committees" above). The committee's purpose is to assist the Board's oversight of the integrity of the financial statements and other financial reporting, the independence and performance of the auditors, the regulation and risk profile of the Group and the review and approval of any related party transactions. The Audit Committee may hold private sessions with management and the external auditor. The Audit Committee proposes to meet six times during the next financial year. The committee is chaired by Neil Pike and its other members are Steven Theede and Jonathan Cartwright. Antony Craven Walker served until retiring from the committee on 30 April 2008.

The responsibilities and operation of the Audit Committee are more particularly set out in the Company's Audit Committee Charter, a copy of which is included as Schedule A to the Company's annual information form for its financial year ended December 31, 2007, a copy of which is available on SEDAR at www.sedar.com.

Remuneration and Compensation Committee
The Remuneration and Compensation Committee meets regularly to consider all material elements of remuneration policy, the remuneration and incentivisation of Executive Directors and senior management and to make recommendations to the Board on the framework for executive remuneration and its cost. The role of the Remuneration and Compensation Committee is to review remuneration policies to attract, retain and motivate the most qualified talent who will contribute to the long-term success of the Company.

The Board is responsible for implementing the recommendations and agreeing to the remuneration packages of individual Directors. The Remuneration and Compensation Committee proposes to meet four times during the next financial year.

The committee is composed entirely of non-Executive directors all of whom are independent (other than as described in "The Board and its Committees" above). The Remuneration and Compensation Committee is chaired by Antony Craven Walker and its other members are Neil Pike and Steven Theede.

Health, Safety and Environmental Committee
The Health, Safety and Environmental Committee is responsible for matters affecting occupational health, safety and the environment, including the formulation of a health, safety and environmental policy statements. The committee proposes to meet at least three times a year. The committee is composed of the Chief Executive and two non-Executive directors. The Health, Safety and Environmental Committee is chaired by Paul Ellis and its other members are Antony Craven Walker and Ian Vann.

DIRECTORS' BIOGRAPHIES

Antony Craven Walker Non-Executive Chairman

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

Paul Ellis Chief Executive Officer

Paul Ellis has 38 years of experience within the areas of exploration, production, development and management of international oil and gas ventures. He joined Serica from Emerald Energy where, as Chief Operating Officer, he was instrumental in the successful expansion of the company's exploration and production interests. Paul commenced his career with BP and subsequently held senior positions in the international oil and gas industry including Technical Director at Charterhouse Petroleum, Director International E&P at British Gas and Senior Vice President International at PanCanadian Petroleum.

Christopher Hearne Finance Director

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

Peter Sadler Operations Director

Peter Sadler has a career spanning over 30 years in the international exploration and production business with both major and independent oil companies. He was formerly Chief Executive of Indago Petroleum plc, a Middle East based exploration and production company with projects that included the development of an offshore gas condensate field. He was Regional Manager Middle East for Novus Petroleum in Dubai and held senior positions in independent oil companies in Australia and the UK.

Neil Pike Non-Executive Director

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

Ian Vann Non-Executive Director

Ian Vann was employed by BP from 1976, and directed and led BP's global exploration efforts from 1996 until his retirement in January 2007. He was appointed to the executive leadership team of the Exploration & Production Division of BP in 2001, initially as Group Vice President, Technology and later as Group Vice President, Exploration and Business Development.

Steven Theede Non-Executive Director

Steven Theede held senior management positions with Conoco, later ConocoPhillips, and in 2000 was appointed President, Exploration and Production for Europe, Russia and the Caspian region. In 2003 he joined Yukos Oil Company and became its Chief Executive Officer in July 2004, a position he held until August 2006.

Jonathan Cartwright Non-Executive Director

Jonathan Cartwright has been Finance Director of Caledonia Investments plc since 1991. He qualified as a chartered accountant with Peat Marwick (now KPMG LLP), became Finance Director of Transworld Petroleum (UK) Limited and subsequently worked for Hanson, serving as group financial controller and also Finance Director of Imperial Foods and other Hanson subsidiaries. He joined Caledonia Investments plc in 1989 and is also a non-executive Director of Bristow Group Inc.

Roustabouts on the drill floor of the GSF 136 jack-up drilling rig prepare to start completion operations on the Kambuna #4 well in May 2008. The equipment painted yellow is the "top drive" assembly used to run pipe into the well and to turn the drill string when in rotary drilling mode. Before testing, the well was completed for production by running and cementing a steel casing across the reservoir interval. Next the casing was perforated using explosive "shaped charges" to provide a controlled pathway for the reservoir fluids to reach the surface.

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SERICA ENERGY PLC

We have audited the Group and Parent company financial statements (the "financial statements") of Serica Energy plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Statement of Changes in Equity, the Group and Parent Company Cash Flow Statements and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Management's Discussion and Analysis that is cross referred from the Business Review section of the Directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions are not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Separate opinion in relation to IFRSs

As explained in Note 1 to the financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2008 and of the Group's loss for the year then ended.

Ernst & Young LLP
Registered auditor

1 More London Place
London
SE1 2AF
27 April 2009

COMMENTS BY AUDITORS FOR CANADIAN READERS

Reporting standards under Canadian generally accepted auditing standards may differ from those under International Standards on Auditing in the form and content of the auditors' report, depending on the circumstances. However, had this auditors' report been prepared in accordance with Canadian generally accepted auditing standards, there would be no material differences in the form and content of this auditors' report. Furthermore an auditors' report prepared in accordance with reporting standards under Canadian generally accepted auditing standards on the aforementioned consolidated financial statements would not contain a qualification.

Ernst & Young LLP
Registered Auditor
1 More London Place
London
SE1 2AF
27 April 2009

GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

Notes		2008 US$000	2007 US$000
	Sales revenue	-	-
	Cost of sales	-	-
	Gross profit	-	-
4	Administrative expenses	(8,628)	(7,813)
	Foreign exchange (loss)/gain	(370)	394
	Pre-licence costs	(1,150)	(287)
13, 15	Asset write offs	(24,034)	(9,282)
	Share-based payments	(1,781)	(1,962)
5	Depreciation and depletion	(146)	(149)
	Operating loss before net finance revenue and tax	**(36,109)**	**(19,099)**
8a)	Profit on disposal	36,620	-
9	Finance revenue	1,823	2,669
10	Finance costs	(3,138)	(321)
	Loss before taxation	**(804)**	**(16,751)**
11a)	Taxation credit for the year	228	432
	Loss for the year from continuing operations	**(576)**	**(16,319)**
	Discontinued operations		
8b)	(Loss)/profit for the year from discontinued operations	(395)	2,690
	Loss for the year	**(971)**	**(13,629)**
	Loss per ordinary share (LPS)		
12	Basic and diluted LPS – continuing operations (US$)	(0.003)	(0.108)
12	Basic and diluted LPS on loss for the year (US$)	(0.006)	(0.090)

BALANCE SHEET
AS AT 31 DECEMBER

Notes		Group 2008 US$000	Group 2007 US$000	Company 2008 US$000	Company 2007 US$000
	Non-current assets				
13	Exploration & evaluation assets	69,711	71,874	-	-
14	Property, plant and equipment	68,526	19,543	-	-
15	Goodwill	295	768	-	-
17	Investments in subsidiaries	-	-	130,684	130,684
18	Financial assets	1,500	4,680	1,500	4,680
18	Other receivables	3,945	1,224	-	-
		143,977	98,089	132,184	135,364
	Current assets				
19	Inventories	4,618	6,991	-	-
20	Trade and other receivables	7,069	21,906	157,856	117,373
20	Tax receivable	-	3,387	-	-
21	Cash and cash equivalents	56,822	22,638	37,758	7,172
		68,509	54,922	195,614	124,545
	TOTAL ASSETS	**212,486**	**153,011**	**327,798**	**259,909**
	Current liabilities				
22	Trade and other payables	(14,599)	(23,604)	(8,366)	(6,376)
23	Financial liabilities	(32,105)	-	(32,105)	-
	Non-current liabilities				
23	Financial liabilities	-	(9,582)	-	(9,582)
11d)	Deferred income tax liabilities	(295)	(3,910)	-	-
	TOTAL LIABILITIES	**(46,999)**	**(37,096)**	**(40,471)**	**(15,958)**
	NET ASSETS	**165,487**	**115,915**	**287,327**	**243,951**
25	Share capital	207,633	158,871	172,361	123,599
17	Merger reserve	-	-	112,174	112,174
	Other reserves	15,510	13,729	15,510	13,729
	Accumulated deficit	(57,656)	(56,685)	(12,718)	(5,551)
	TOTAL EQUITY	**165,487**	**115,915**	**287,327**	**243,951**

Approved by the Board on 27 April 2009

Paul Ellis – Chief Executive Officer

Christopher Hearne – Finance Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

Group	Share capital US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2007	157,283	11,767	(43,056)	125,994
Proceeds on exercise of options	1,588	-	-	1,588
Share-based payments	-	1,962	-	1,962
Loss for the year	-	-	(13,629)	(13,629)
At 31 December 2007	**158,871**	**13,729**	**(56,685)**	**115,915**
Issue of share capital	51,046	-	-	51,046
Costs associated with shares issued	(2,465)	-	-	(2,465)
Proceeds on exercise of options	181	-	-	181
Share-based payments	-	1,781	-	1,781
Loss for the year	-	-	(971)	(971)
At 31 December 2008	**207,633**	**15,510**	**(57,656)**	**165,487**

Company	Share capital US$000	Merger reserve US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2007	122,011	112,174	11,767	(2,097)	243,855
Proceeds on exercise of options	1,588	-	-	-	1,588
Share-based payments	-	-	1,962	-	1,962
Loss for the year	-	-	-	(3,454)	(3,454)
At 31 December 2007	**123,599**	**112,174**	**13,729**	**(5,551)**	**243,951**
Issue of share capital	51,046	-	-	-	51,046
Costs associated with shares issued	(2,465)	-	-	-	(2,465)
Proceeds on exercise of options	181	-	-	-	181
Share-based payments	-	-	1,781	-	1,781
Loss for the year	-	-	-	(7,167)	(7,167)
At 31 December 2008	**172,361**	**112,174**	**15,510**	**(12,718)**	**287,327**

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Group 2008 US$000	2007 US$000	Company 2008 US$000	2007 US$000
Cash flows from operating activities:				
Operating loss (including discontinued)	(36,165)	(19,271)	(5,320)	(5,011)
Adjustments for:				
Depreciation and depletion	146	149	-	-
Asset write offs	24,034	9,282	-	-
Share-based payments	1,781	1,962	1,781	1,962
Decrease/(increase) in trade and other receivables	11,528	8,093	488	(2,230)
Decrease/(increase) in inventories	2,092	(206)	-	-
(Decrease)/increase in trade and other payables	(11,981)	(12,895)	1,643	331
Cash outflow from operations	(8,565)	(12,886)	(1,408)	(4,948)
Taxes received	3,227	2,717	-	-
Net cash outflow from operations	**(5,338)**	**(10,169)**	**(1,408)**	**(4,948)**
Cash flows from investing activities:				
Purchase of property, plant and equipment	(62,605)	(185)	-	-
Purchase of E&E assets	(27,939)	(58,766)	-	-
Funding provided to Group subsidiaries	-	-	(41,697)	(45,054)
Funding provided for work programmes	-	(4,680)	-	(4,680)
Proceeds from disposals of plant, property and equipment	52,743	-	-	-
Proceeds from disposals of E&E assets	3,088	5,000	-	-
Interest received	1,898	2,873	1,354	1,497
Net cash used in investing activities	**(32,815)**	**(55,758)**	**(40,343)**	**(48,237)**
Cash proceeds from financing activities:				
Net proceeds from issue of shares	48,581	-	48,581	-
Proceeds on exercise of options	181	1,588	181	1,588
Proceeds from loans and borrowings (net)	25,000	9,671	25,000	9,671
Finance costs paid	(1,425)	-	(1,425)	-
Net cash from financing activities	**72,337**	**11,259**	**72,337**	**11,259**
Net increase/(decrease) in cash and cash equivalents	**34,184**	**(54,668)**	**30,586**	**(41,926)**
Cash and cash equivalents at 1 January	22,638	77,306	7,172	49,098
Cash and cash equivalents at 31 December	**56,822**	**22,638**	**37,758**	**7,172**

NOTES TO THE FINANCIAL STATEMENTS

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

The Group's and Company's financial statements for the year ended 31 December 2008 were authorised for issue by the Board of Directors on 27 April 2009 and the balance sheets were signed on the Board's behalf by Paul Ellis and Chris Hearne. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales. The principal activity of the Company and the Group is to identify, acquire and subsequently exploit oil and gas reserves primarily in Asia and Europe. The Company's ordinary shares are traded on AIM and the TSX-V.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2008. The Company's financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Company for the period ended 31 December 2008 and as applied in accordance with the provisions of the Companies Act 1985. The Group's financial statements are also prepared in accordance with IFRS as issued by the IASB. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes. The deficit dealt with in the financial statements of the parent Company was US$7,167,000 (2007: US$3,454,000).

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

2. ACCOUNTING POLICIES

Basis of Preparation
The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2008.

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.

Going Concern
The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above. As at 31 December 2008 the Group had US$32.1 million of debt and US$56.8 million of available cash.

The Directors are required to consider the availability of resources to meet the Group and Company's liabilities for the foreseeable future. As described in the MD&A, the current business environment is challenging and access to new equity and debt remains uncertain. The Group's existing debt facility must be refinanced by November 2009. As of 24 April 2009 the Group's debt facility was US$45 million drawn down resulting in a net debt position of some US$7 million. Further draw downs and ongoing expenditure are planned prior to refinancing.

Although the refinancing cannot be considered certain in the current environment, management remains confident that it can be achieved on acceptable terms. This is based upon the following factors: the Kambuna field is expected to commence production in mid 2009; gas sales contracts for Kambuna have been finalised at fixed prices and any fluctuations in condensate prices will be largely offset by variations in cost recovery entitlement; the Company has a record of prudent financial management, including the raising of capital through farm down and the sale of part of its Kambuna field interest; and, the Company has an established relationship with its existing banking syndicate. Discussions are already underway on a replacement facility. The option of further asset sales is also open to the Company.

After making enquiries and having taken into consideration the above factors, the Directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

Use of judgement and estimates and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes could differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognised in the financial statements are: the impairment of the Group's assets (including goodwill, oil & gas development assets and E&E assets), share-based payment costs and contingencies.

Impairment

The Group monitors internal and external indicators of impairment relating to its intangible and tangible assets, which may indicate that the carrying value of the assets may not be recoverable. The assessment of the existence of indicators of impairment in E&E assets involves judgement, which includes whether management expects to fund significant further expenditure in respect of a licence and whether the recoverable amount may not cover the carrying value of the assets. For development assets judgement is involved when determining whether there have been any significant changes in the Group's oil and gas reserves.

The Group determines whether E&E assets are impaired at an asset level and in regional cost centres when facts and circumstances suggest that the carrying amount of a regional cost centre may exceed its recoverable amount. As recoverable amounts are determined based upon risked potential, or where relevant, discovered oil and gas reserves, this involves estimations and the selection of a suitable pre-tax discount rate relevant to the asset in question. The calculation of the recoverable amount of oil and gas development properties involves estimating the net present value of cash flows expected to be generated from the asset in question. Future cash flows are based on assumptions on matters such as estimated oil and gas reserve quantities and commodity prices. The discount rate applied is a pre-tax rate which reflects the specific risks of the country in which the asset is located.

Share-based payment costs

The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgments relating to the continuing participation of employees (see note 27).

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Basis of Consolidation
The consolidated financial statements include the accounts of Serica Energy plc (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., Serica Holdings UK Limited, Serica Energy (UK) Limited, PDA Lematang Limited, APD (Asahan) Limited, APD (Biliton) Limited, Serica Energy Pte Limited, Serica Kutei B.V., Serica Nam Con Son B.V., Serica Glagah Kambuna B.V. and Serica East Seruway B.V.. Together these comprise the "Group".

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

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

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

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

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

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

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

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

Full details of Serica's working interests in those petroleum and natural gas exploration and production activities classified as jointly controlled assets are included in the Review of Operations.

Upon the successful development of an oil or gas field in a contract area, the cumulative excess of paying interest over working interest in that contract is generally repaid out of the field production revenue attributable to the carried interest holder.

Exploration and Evaluation Assets

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

Pre-licence Award Costs

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

Exploration and Evaluation

The costs of exploring for and evaluating oil and gas properties, including the costs of acquiring rights to explore, geological and geophysical studies, exploratory drilling and directly related overheads, are capitalised and classified as intangible E&E assets. These costs are directly attributed to regional cost centres for the purposes of impairment testing; Indonesia, Vietnam, UK & North West Europe and Spain.

E&E assets are not amortised prior to the conclusion of appraisal activities but are assessed for impairment at an asset level and in regional cost centres when facts and circumstances suggest that the carrying amount of a regional cost centre may exceed its recoverable amount. Recoverable amounts are determined based upon risked potential, and where relevant, discovered oil and gas reserves. When an impairment test indicates an excess of carrying value compared to the recoverable amount, the carrying value of the regional cost centre is written down to the recoverable amount in accordance with IAS 36. Such excess is expensed in the income statement.

Costs of licences are expensed in the income statement if licences are relinquished, or if management do not expect to fund significant future expenditure in relation to the licence.

The E&E phase is completed when either the technical feasibility and commercial viability of extracting a mineral resource are demonstrable or no further prospectivity is recognised. At that point, if commercial reserves have been discovered, the carrying value of the relevant assets, net of any impairment write-down, is classified as an oil and gas property within property, plant and equipment, and tested for impairment. If commercial reserves have not been discovered then the costs of such assets will be retained within the relevant geographical E&E segment until subject to impairment or relinquishment.

Asset Purchases and Disposals

When a commercial transaction involves the exchange of E&E assets of similar size and characteristics, no fair value calculation is performed. The capitalised costs of the asset being sold are transferred to the asset being acquired. Proceeds from a part disposal of an E&E asset, including back-cost contributions are credited against the capitalised cost of the asset.

Property, Plant and Equipment – Oil and gas properties

Capitalisation

Oil and gas properties are stated at cost, less any accumulated depreciation and accumulated impairment losses. Oil and gas properties are accumulated into single field cost centres and represent the cost of developing the commercial reserves and bringing them into production together with the E&E expenditures incurred in finding commercial reserves previously transferred from E&E assets as outlined in the policy above. The cost will include, for qualifying assets, borrowing costs.

Depreciation

Oil and gas properties are not depreciated until production commences. Costs relating to each single field cost centre are depleted on a unit of production method based on the commercial proved and probable reserves for that cost centre. The depletion calculation takes account of the estimated future costs of development of recognised proved and probable reserves. Changes in reserve quantities and cost estimates are recognised prospectively from the last reporting date.

Impairment

A review is performed for any indication that the value of the Group's development and production assets may be impaired.

For oil and gas properties when there are such indications, an impairment test is carried out on the cash generating unit. Each cash generating unit is identified in accordance with IAS 36. Serica's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development or production areas. If necessary, additional impairment is charged through the income statement if the capitalised costs of the cash generating unit exceed the associated estimated future discounted cash flows of the related commercial oil and gas reserves.

Asset Disposals

Proceeds from the entire disposal of a development and production asset, or any part thereof, are taken to the income statement together with the requisite proportional net book value of the asset, or part thereof, being sold.

Decommissioning

Liabilities for decommissioning costs are recognised when the Group has an obligation to dismantle and remove a production, transportation or processing facility and to restore the site on which it is located. Liabilities may arise upon construction of such facilities, upon acquisition or through a subsequent change in legislation or regulations. The amount recognised is the estimated present value of future expenditure determined in accordance with local conditions and requirements. A corresponding tangible item of property, plant and equipment equivalent to the provision is also created. The Group did not carry any provision for decommissioning costs during 2007 or 2008.

Any changes in the present value of the estimated expenditure is added to or deducted from the cost of the assets to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. The unwinding of the discount on the decommissioning provision is included as a finance cost.

Property, Plant and Equipment – Other

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

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

Investments
In its separate financial statements the Company recognises its investments in subsidiaries at cost less any provision for impairment.

Financial Instruments
Financial instruments comprise financial assets, cash and cash equivalents, financial liabilities and equity instruments.

Financial assets
Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial asset are capitalised unless they relate to a financial asset classified at fair value through profit and loss in which case transaction costs are expensed in the income statement.

The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Financial assets at fair value through profit or loss include financial assets held for trading and derivatives. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost, using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses are recognised in the income statement when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

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

Financial liabilities
Financial liabilities include interest bearing loans and borrowings, and trade and other payables.

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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

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

Finance Revenue
Finance revenue chiefly comprises interest income from cash deposits on the basis of the effective interest rate method and is disclosed separately on the face of the income statement.

Finance Costs
Finance costs of debt are allocated to periods over the term of the related debt using the effective interest method. Arrangement fees and issue costs are amortised and charged to the income statement as finance costs over the term of the debt.

Borrowing costs
Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time the assets are substantially ready for their intended use i.e when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amounts capitalised represent the actual borrowing costs incurred. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Share-Based Payment Transactions
The Company operates equity settled schemes under which employees may be awarded share options from time-to-time. The fair value of each option at the date of the grant is estimated using an appropriate pricing model based upon the option price, the share price at the date of issue, market parameters (if any), volatility and the life of the option. It is assumed that all performance criteria are met.

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

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. Estimated associated national insurance charges are expensed in the income statement on an accruals basis.

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

- temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and

- temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the income statement nor taxable profit or loss.

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

Earnings Per Share

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

New standards and interpretations not applied

At the date of the authorisation of these financial statements, certain new Standards, amendments and Interpretations to existing Standards have been published but are not yet effective. The Group has not early adopted any of these pronouncements. The new Standards, amendments and Interpretations that are expected to be relevant to the Group and Company's financial statements are as follows:

International Accounting Standards (IAS / IFRSs)		Effective date
IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendment)	1 January 2009
IFRS 2	IFRS 2 – Vesting Conditions and Cancellations (Amendment)	1 January 2009
IFRS 3	Business Combinations (Revised January 2008)	1 July 2009
IFRS 7	Financial instruments: Disclosures (Amendment)	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (Revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (Revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (Amendment)	1 July 2009
IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation (Amendment)	1 January 2009
IAS 39	Eligible Hedged Items (Amendment)	1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009

The Directors do not anticipate that the adoption of these statements and interpretations will have a material impact on the Group's financial statements in the period of initial application.

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 and development.

The following tables present revenue and certain asset and liability information regarding the Group's geographical segments for the years ended 31 December 2008 and 2007. Costs of the Singapore office are included in the Indonesian geographical segment.

Year ended 31 December 2008	Indonesia US$000	Vietnam US$000	UK & NW Europe US$000	Spain US$000	Total US$000
Revenue	-	-	-	-	-
Continuing operations					
Other expenses	(1,153)	(25)	(9,544)	(57)	(10,779)
Pre-licence costs	(305)	-	(845)	-	(1,150)
Asset write offs	(375)	-	(17,514)	(6,145)	(24,034)
Depreciation	(20)	-	(126)	-	(146)
Operating loss	(1,853)	(25)	(28,029)	(6,202)	(36,109)
Profit on disposal	36,620	-	-	-	36,620
Segment results	34,767	(25)	(28,029)	(6,202)	511
Finance revenue					1,823
Finance costs					(3,138)
Loss before taxation					(804)
Taxation credit for the year					228
Loss after taxation					**(576)**
Discontinued operations					
Operating loss			(56)		(56)
Finance costs			(6)		(6)
Loss on disposal			(3,720)		(3,720)
Loss before taxation					(3,782)
Taxation credit					3,387
Loss after taxation					**(395)**
Other segment information:					
Exploration and evaluation assets	7,962	13,918	47,831	-	69,711
Plant, property and equipment	68,331	62	133	-	68,526
Goodwill	295	-	-	-	295
Other assets	14,447	903	11,673	66	27,089
Unallocated assets					46,865
Total assets	**91,035**	**14,883**	**59,637**	**66**	**212,486**
Segment liabilities	(10,154)	(1)	(4,440)	(4)	(14,599)
Unallocated liabilities					(32,400)
Total liabilities	**(10,154)**	**(1)**	**(4,440)**	**(4)**	**(46,999)**
Capital expenditure 2008:					
Exploration and evaluation assets	4,870	7,176	14,016	1,186	27,248
Property, plant and equipment	62,558	18	29	-	62,605

Year ended 31 December 2007	Indonesia US$000	Vietnam US$000	UK & NW Europe US$000	Spain US$000	Total US$000
Revenue	-	-	-	-	-
Continuing operations					
Other expenses	(959)	(17)	(8,216)	(189)	(9,381)
Pre-licence costs	(176)	-	(111)	-	(287)
Asset write offs	(8,991)	-	(291)	-	(9,282)
Depreciation	(45)	-	(104)	-	(149)
Operating loss and segment loss	(10,171)	(17)	(8,722)	(189)	(19,099)
Finance revenue					2,669
Finance costs					(321)
Loss before taxation					(16,751)
Taxation credit for the year					432
Loss after taxation					**(16,319)**
Discontinued operations					
Operating loss			(172)		(172)
Finance revenue			145		145
Loss before taxation					(27)
Taxation credit					2,717
Profit after taxation					**2,690**
Other segment information:					
Exploration and evaluation assets	3,091	6,742	57,243	4,798	71,874
Plant, property and equipment	19,269	44	230	-	19,543
Goodwill	384	-	293	91	768
Other assets	25,218	627	21,331	2,150	49,326
Unallocated assets					11,500
Total assets	**47,962**	**7,413**	**79,097**	**7,039**	**153,011**
Segment liabilities	(14,879)	-	(7,624)	(1,101)	(23,604)
Unallocated liabilities					(13,492)
Total liabilities	**(14,879)**	**-**	**(7,624)**	**(1,101)**	**(37,096)**
Capital expenditure 2007:					
Exploration and evaluation assets	9,592	6,742	38,349	3,643	58,326
Property, plant and equipment	42	44	99	-	185

Unallocated assets and liabilities comprise financing items (including cash on deposit and bank loans) and taxation.

4. ANALYSIS OF EXPENSES BY FUNCTION

	2008	2007
	US$000	US$000
Administrative	8,628	7,813
Asset write offs	24,034	9,282
Other	3,447	2,004
	36,109	**19,099**

5. GROUP OPERATING LOSS

	2008	2007
	US$000	US$000
This is stated after charging:		
Depreciation of property, plant and equipment	146	149
Total depreciation and amortisation expense	**146**	**149**
Operating lease rentals (minimum lease payments):		
- Land and buildings	355	321
- Other	15	29
Total lease payments recognised as an expense	**370**	**350**

6. AUDITOR'S REMUNERATION

	2008	2007
	US$000	US$000
Audit of the Group accounts	41	39
Audit of the Company's accounts	152	166
Total audit fees	**193**	**205**

	US$000	US$000
Other fees to auditor:		
Audit of Company's subsidiaries pursuant to legislation	18	16
Other services pursuant to legislation	128	66
Corporate finance services (i)	41	352
Taxation services	25	-
Other services (ii)	43	-
	255	**434**

(i) US$352,000 was incurred on various 2007 financing projects. Included within 2007 costs was US$82,000 in respect of the share placing, completed in January 2008 which was netted against share premium in 2008.

(ii) Other fees were incurred in respect of various advisory services in 2008.

Fees paid to Ernst & Young LLP and its associates for non-audit services are not disclosed in the individual accounts of the Company as Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

7. STAFF COSTS AND DIRECTORS' EMOLUMENTS

a) Staff Costs

The average monthly number of persons employed by the Group during the year was:	2008	2007
Management	3	2
Technical	17	15
Finance and administration	16	15
	36	**32**

	US$000	US$000
Staff costs for the above persons:		
Wages and salaries	3,648	3,328
Social security costs	387	371
Other pension costs	406	233
Share-based long-term incentives (including related NI cost)	1,675	1,739
	6,116	**5,671**

b) Directors' Emoluments

The emoluments of the individual Directors were as follows:

	Salary and fees 2008 US$000	Benefits in kind 2008 US$000	Total 2008 US$000	Total 2007 US$000
A Craven Walker	129	-	129	140
P Ellis	386	12	398	412
C Hearne	337	7	344	360
P Sadler (Appointed 28 November 2008)	33	-	33	-
N Pike	73	-	73	80
I Vann (Appointed 1 July 2007)	64	-	64	34
S Theede (Appointed 24 July 2007)	64	-	64	31
J Cartwright (Appointed 27 March 2008)	49	-	49	-
J Steel (Resigned 30 September 2007)	-	-	-	52
	1,135	**19**	**1,154**	**1,109**

	2008	2007
Number of Directors securing benefits under defined contribution schemes	3	-
Number of Directors who exercised share options	-	3

	2008 US$000	2007 US$000
Aggregate gains made by Directors on the exercise of options	-	440

The Group defines key management personnel as the Directors of the Company. There are no transactions with Directors other than their remuneration as disclosed above.

8. ASSET DISPOSALS AND DISCONTINUED OPERATION

a) Kambuna asset disposal
In August 2008 the Company completed the sale of a 15% interest in the Glagah Kambuna TAC to a subsidiary of Salamander Energy plc ('Salamander') for consideration of US$52.7 million which included payments for working capital. This disposal generated a profit of US$36.6 million after crediting the relevant proportional element of book costs from development assets (classified within property, plant and equipment), goodwill and other working capital balances.

b) Norwegian interests – Discontinued operation
In June 2008, the Company reached agreement with Spring Energy Norway AS ("Spring") for the sale of Serica's Norwegian subsidiary, Serica Energy Norge AS, which held all of Serica's interests in Norway, comprising a 20% working interest in each of Norwegian offshore licences PL406 and PL407. The transaction completed in November 2008 and the base consideration which provided for payment in respect of past costs relating to the blocks, was received in full.

The impact of this disposal group on the Income Statement for the years ended 31 December 2008 and 31 December 2007 is noted below.

	2008 US$000	2007 US$000
Revenue	-	-
Expenses	(56)	(172)
Loss on disposal of E&E assets	(3,720)	-
Net finance (costs)/revenue	(6)	145
Loss before tax from operations	(3,782)	(27)
Taxation credit (see note 11)	3,387	2,717
(Loss)/profit for the year from operations	**(395)**	**2,690**
(Loss)/profit per share from discontinued operations		
Basic and diluted (US$)	(0.002)	0.018

Net cash inflows from investing activities of the disposal group for the year ended 31 December 2008 totalled US$0.6 million (year ended 31 December 2007: investing cash outflows US$4.4 million).

Net cash inflows from operating activities (including taxation cash recoveries) of the disposal group for the year ended 31 December 2008 totalled US$3.2 million (year ended 31 December 2007: US$2.6 million).

The agreement also includes a contingent payment to reflect the value of the Bream Field at the time that the field is brought onto production. Under the terms of the transaction Serica retained a part of the potential upside value of the Bream field without being exposed to further appraisal and development costs or to the commitment of additional resources.

9. FINANCE REVENUE

	2008 US$000	2007 US$000
Bank interest receivable	1,488	2,669
Other interest receivable	335	-
Total finance revenue	**1,823**	**2,669**

10. FINANCE COSTS

	2008 US$000	2007 US$000
Bank loans	3,138	321
Total finance costs	**3,138**	**321**

Bank loan finance costs include interest payable and an amortisation charge of associated issue costs.

11. TAXATION

	2008 US$000	2007 US$000
a) Tax credited in the income statement		
Tax (credited)/charged in the income statement		
Foreign tax credit – discontinued operations	-	(6,104)
Total current income tax credit	-	(6,104)
Deferred tax		
Releases on disposals and write offs – continuing operations	(228)	(432)
Release on disposal – discontinued operations	(3,387)	-
Temporary differences on capital expenditure - discontinued operations	-	3,387
Total deferred tax (credit)/charge	(3,615)	2,955
Tax credit in the income statement	**(3,615)**	**(3,149)**

The tax credit in the income statement is disclosed as:		
Tax credit on continuing operations	(228)	(432)
Tax credit on discontinued operations (see note 8b)	(3,387)	(2,717)
	(3,615)	**(3,149)**

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

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

	2008 US$000	2007 US$000
Loss from continuing operations before taxation	(804)	(16,751)
Loss from discontinued operations before taxation	(3,782)	(27)
Accounting loss before taxation	**(4,586)**	**(16,778)**
Expected tax credit at standard UK corporation tax rate of 28.5% (2007 – 30%)	(1,307)	(5,033)
Expenses not deductible for tax purposes	1,010	567
Unrecognised deferred tax assets	7,798	572
Gain on intra-group disposal	-	1,196
Release of deferred tax liability	(228)	(432)
Norwegian tax credit	(3,387)	(2,717)
Gain on disposal not chargeable to tax	(9,359)	-
Asset write offs	1,858	2,698
Tax credit reported in the income statement	**(3,615)**	**(3,149)**

c) Unrecognised tax losses

The benefit of approximately US$40.4 million (2007: US$9.6 million) of tax losses has not been recognised in these consolidated statements which reflects the extent of the total available UK tax losses that have not been set against a deferred tax liability arising. The Group has UK tax losses of approximately US$86.8 million (2007: US$61.3 million) that are available indefinitely for offset against future trading profits of the companies in which the losses arose. Of this amount US$46.4 million (2007: US$51.7 million) has been set off against taxable temporary differences.

d) Deferred tax

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

	2008 US$000	2007 US$000
Deferred tax liability:		
Fair value adjustments on business combinations	295	523
Temporary differences on capital expenditure	-	3,387
Deferred tax liability	**295**	**3,910**
Deferred tax asset:		
Tax losses carried forward	-	-
Deferred tax asset	**-**	**-**

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

	2008 US$000	2007 US$000
Deferred tax in the income statement:		
Release of liability on disposal	(89)	-
Release of liability on write off	(139)	(432)
Temporary differences on capital expenditure	-	3,387
Release of liability on discontinued operation	(3,387)	-
Deferred income tax (credit)/charge	**(3,615)**	**2,955**

e) Change in corporation tax rate

The UK corporation tax rate decreased from 30% to 28% from 1 April 2008. This change will have no significant impact on deferred tax balances or foreseeable future tax profits/losses. The UK corporation tax rate for ring fenced trading profits remains at 50%.

f) Company

There is no current or deferred taxation charge, or deferred tax asset/liability recognised for the Company (2007: US$nil).

12. Earnings Per Share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. As a result of the net loss for the years ended 31 December 2007 and 2008, there is no dilutive effect of the share options.

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

	2008 US$000	2007 US$000
Loss from continuing operations	(576)	(16,319)
(Loss)/profit from discontinued operations	(395)	2,690
Net loss attributable to equity holders of the parent	**(971)**	**(13,629)**

	2008 '000	2007 '000
Basic and diluted weighted average number of shares	**176,067**	**151,355**

	2008 US$	2007 US$
Basic and diluted loss per ordinary share - continuing operations	(0.003)	(0.108)
Basic and diluted (loss)/profit per ordinary share - discontinued	(0.002)	0.018
Basic and diluted loss per ordinary share on loss for the year	(0.006)	(0.090)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

13. EXPLORATION AND EVALUATION ASSETS

Group	**Total US$000**
Cost:	
1 January 2007	40,681
Additions	58,326
Relinquished licences	(291)
Write offs	(7,677)
Transfers (see note 14)	(19,165)
31 December 2007	71,874
Additions	27,248
Disposals	(6,136)
Write offs	(23,275)
31 December 2008	69,711
Provision for impairment:	
1 January 2007 and 1 January 2008	-
Impairment charge for the year	-
31 December 2008	-
Net book value:	
31 December 2008	**69,711**
31 December 2007	**71,874**
1 January 2007	**40,681**

The E&E asset write offs during 2008 totalled US$23,275,000. These consisted of US$11,117,000 in respect of Licence P898 48/16b (Chablis) and US$6,104,000 from Licence P1253 54/1b (Oak) in the UK, together with US$6,054,000 in respect of the Company's Spanish permits. The total asset write off charge in the Income Statement of US$24,034,000 also includes goodwill of US$293,000 for Chablis and US$91,000 for Spain, and other Biliton PSC assets of US$375,000.

The E&E asset disposals in 2008 relate entirely to Norwegian E&E assets.

The E&E asset write offs during 2007 include US$7,677,000 in respect of the Biliton PSC, and US$291,000 from relinquished licences in the UK. The total asset write off charge in the Income Statement for Biliton PSC costs is US$8,991,000 comprising E&E assets (US$7,677,000), goodwill (US$432,000), inventory (US$603,000) and long term other receivables (US$279,000).

Company
The Company has no E&E assets.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Oil and gas properties US$000	Computer/IT Equipment US$000	Fixtures, Fittings & Equipment US$000	Total US$000
Cost				
1 January 2007	-	150	348	498
Additions	-	28	157	185
Transfers (see note 13)	19,165	-	-	19,165
31 December 2007	19,165	178	505	19,848
Additions	62,587	12	6	62,605
Disposals (see note 8)	(13,476)	-	-	(13,476)
31 December 2008	68,276	190	511	68,977
Depreciation:				
1 January 2007	-	88	68	156
Charge for the year	-	37	112	149
31 December 2007	-	125	180	305
Charge for the year	-	29	117	146
31 December 2008	-	154	297	451
Net book value:				
31 December 2008	**68,276**	**36**	**214**	**68,526**
31 December 2007	**19,165**	**53**	**325**	**19,543**
1 January 2007	**-**	**62**	**280**	**342**

Oil and gas properties
With effect from 31 December 2007 all costs carried in respect of Kambuna were reclassified from 'exploration and evaluation' assets to 'oil and gas properties' within property, plant and equipment. Borrowing interest payable costs relating to drilling of development wells, that have been capitalised within oil and gas properties during the year amount to US$0.6 million (2007:US$ nil), at a weighted average interest of 4.6%.

Company
The Company has no property, plant and equipment.

15. GOODWILL

Group	Total US$000
At 1 January 2007	1,200
Write offs (see note 13)	(432)
At 31 December 2007	768
Disposals (see note 8a)	(89)
Write offs (see note 13)	(384)
At 31 December 2008	**295**

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the groups of cash-generating units, as follows:

Indonesia [US$295,000 (2007: US$384,000)], UK and North West Europe [US$nil (2007: US$293,000)] and Spain [US$nil (2007: US$91,000)].

These represent the lowest level within the Group at which goodwill is monitored for internal management purposes. The Group balance sheet includes US$0.3 million of corresponding deferred tax liabilities at 31 December 2008 (US$0.8 million at 31 December 2007) that are treated as part of the relevant cash-generating units when testing the Group's goodwill for impairment.

Company
The Company has no goodwill.

16. IMPAIRMENT

After identifying indicators of impairment in certain Exploration and Evaluation assets, management has written off all costs to-date of US$6.1 million on its Spanish permits, US$6.1 million on its Oak discovery in the UK, and US$11.4 million of costs on its Chablis interest, also in the UK. These write offs are as a result of management's decision not to allocate any significant further funds for exploration of these interests.

17. INVESTMENTS

Company – Investment in subsidiaries	**US$000**
Cost:	
At 31 December 2006	119,682
Investment in Serica Holdings UK Limited	11,002
At 31 December 2007 and 2008	**130,684**

In the Company financial statements, the cost of the investment acquired on the Reorganisation (see note 1) was calculated with reference to the market value of Serica Energy Corporation as at the date of the Reorganisation. As a UK company, under Section 131 of the Companies Act, the Company is entitled to merger relief on its share reorganisation with Serica Energy Corporation, and the excess of US$112,174,000 over the nominal value of shares issued (US$7,475,000) has been credited to a merger reserve.

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

	Holding	**Nature of business**	**% voting rights and shares held 2008**	**% voting rights and shares held 2007**
Name of company:				
Serica Energy Holdings B.V. (iii)	Ordinary	Holding	100	100
Serica Energy Corporation (i & ii)	Ordinary	Holding	100	100
Serica Holdings UK Ltd	Ordinary	Holding	100	100
Serica Energy (UK) Ltd (i)	Ordinary	Exploration	100	100
Serica Energia Iberica SL (i)	Ordinary	Exploration	100	100
Serica Energy Pte Ltd (i & iv)	Ordinary	Admin	100	100
APD Ltd (i & ii)	Ordinary	Holding	100	100
APD (Asahan) Ltd (i & ii)	Ordinary	Exploration	100	100
APD (Biliton) Ltd (i & ii)	Ordinary	Exploration	100	100
PDA Asia Ltd (i & ii)	Ordinary	Holding	100	100
PDA (Lematang) Ltd (i)	Ordinary	Dormant	100	100
Serica Kutei B.V. (i & iii)	Ordinary	Exploration	100	100
Serica Nam Con Son B.V. (i & iii)	Ordinary	Exploration	100	100
Serica Glagah Kambuna B.V.(i& iii)	Ordinary	Development	100	100
Serica East Seruway B.V. (i & iii)	Ordinary	Exploration	100	100

(i) Held by a subsidiary undertaking
(ii) Incorporated in the British Virgin Islands
(iii) Incorporated in the Netherlands
(iv) Incorporated in Singapore

18. OTHER NON-CURRENT ASSETS

	Group 2008 US$000	2007 US$000	Company 2008 US$000	2007 US$000
Financial assets	**1,500**	**4,680**	**1,500**	**4,680**
Other receivables	**3,945**	**1,224**	**-**	**-**

Financial assets entirely relate to restricted cash on deposit with financial institutions securing various guarantees and performance bonds associated with the Group's trading activities.

Other receivables are represented by value added tax ("VAT") on Indonesian capital spend, which would be recovered from future production.

19. INVENTORIES

	Group 2008 US$000	2007 US$000	Company 2008 US$000	2007 US$000
Materials and spare parts	4,618	6,991	-	-
	4,618	**6,991**	**-**	**-**

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

20. OTHER CURRENT RECEIVABLES

	Group 2008 US$000	2007 US$000	Company 2008 US$000	2007 US$000
Due within one year:				
Amounts owed by Group undertakings	-	-	156,038	115,007
Other receivables	5,746	19,038	1,247	336
Prepayments and accrued income	1,323	2,868	571	2,030
Trade and other receivables	**7,069**	**21,906**	**157,856**	**117,373**
Tax receivable	**-**	**3,387**	**-**	**-**

Management considers that there are no unreasonable concentrations of credit risk within the Group or Company. None of the above are considered past due nor impaired.

21. CASH AND SHORT-TERM DEPOSITS

	Group 2008 US$000	2007 US$000	Company 2008 US$000	2007 US$000
Cash at bank and in hand	9,957	11,138	2,311	172
Short-term deposits	46,865	11,500	35,447	7,000
	56,822	22,638	37,758	7,172

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The Group's exposure to credit risk arises from potential default of a counterparty, with a maximum exposure equal to the carrying amount. The Group seeks to minimise counterparty credit risks by only depositing cash surpluses with major banks of high quality credit standing, and spreading the placement of funds over a range of institutions.

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

22. TRADE AND OTHER PAYABLES

	Group 2008 US$000	2007 US$000	Company 2008 US$000	2007 US$000
Current:				
Trade payables	3,887	13,098	2,372	117
Other payables	10,712	10,506	647	1,259
Amounts owed to Group undertakings	-	-	5,347	5,000
	14,599	23,604	8,366	6,376

23. FINANCIAL LIABILITIES

	Group		Company	
	2008 US$000	2007 US$000	2008 US$000	2007 US$000
Current bank loans:				
Variable rate multi-option facility	32,105	-	32,105	-
	32,105	**-**	**32,105**	**-**
Non-current bank loans:				
Variable rate multi-option facility	-	9,582	-	9,582
	-	**9,582**	**-**	**9,582**

Bank loans

On 15 November 2007 the Company entered into a $100 million senior secured revolving credit facility with JP Morgan and the Bank of Scotland. The initial facility was for a period of 12 months, but included an option for the Company to extend the funding until May 2009. During 2008 a third bank, Natixis, joined the lending consortium, and in November 2008, the Company exercised its option to extend the facility. In February 2009 the facility was further extended until November 2009, when refinancing will be required.

The most significant part of the facility, which included a corporate element of US$10 million, was to fund development expenditures, particularly on the Kambuna field. The ability to draw down under the facility for development is determined both by the achievement of milestones on the relevant project and also by the availability calculated under a projection model. On the Kambuna field the key milestones for 2008 were gas sales heads of agreement being in place, compliance with environmental policy, and commercial construction contracts agreed for the relevant stages of development all of which were achieved and US$25 million was drawn in June of that year.

The loan as at 31 December 2008 has been drawn down under the multi-option facility (MOF) bearing interest at 3.0% above LIBOR. The loan is repayable within twelve months of the balance sheet date and therefore classified as current. As at 31 December 2008, the total amount repayable on maturity was approximately US$32 million plus any accrued interest.

At 31 December 2008, the Group had available approximately US$85 million of committed borrowing facilities for which all conditions precedent had been met, of which US$32 million had been drawn down and US$53 million was undrawn. In March 2009, a further net US$13 million draw down was made and as at 24 April 2009 the total loan drawn down was US$45 million.

It is expected the facility will continue to be used primarily to fund development expenditures for the Kambuna field during the remainder of its term and that this will be sufficient to meet the remaining financing requirements for Kambuna. Availability of the US$15 million balance under the facility at 31 December 2008 would depend upon achievement of relevant conditions precedent and projections for other development assets within the Group's portfolio. The facility is secured by first charges over the Group's interest in the Kambuna field in Indonesia and the Columbus field in the UK North Sea and the shares of certain subsidiary companies.

24. FINANCIAL INSTRUMENTS

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

Serica has exposure to interest rate fluctuations on its cash deposits and bank loans; given the level of expenditure plans over 2009/10 this is managed in the short-term through selecting treasury deposit periods of one to three 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 concentration and 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.

Serica retains certain cash holdings and other financial instruments relating to its operations. The US$ reporting currency value of these may fluctuate from time to time causing reported foreign exchange gains and losses. Serica maintains a broad strategy of matching the currency of funds held on deposit with the expected expenditures in those currencies. Management believes that this mitigates most of any actual potential currency risk from financial instruments. Loan funding is available in US Dollars and Pounds Sterling and is drawn-down in the currency required.

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

Interest Rate Risk Profile of Financial Assets and Liabilities
The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows:

Group

Year ended 31 December 2008

	Within 1 year US$000	1-2 years US$000	Total US$000
Fixed rate			
Short-term deposits	46,865	-	46,865
Long-term financial assets	-	1,500	1,500
			48,365

	Within 1 year US$000	1-2 years US$000	Total US$000
Floating rate			
Cash	9,957	-	9,957
Bank loans	(32,105)	-	(32,105)
			(22,148)

Year ended 31 December 2007

	Within 1 year US$000	1-2 years US$000	Total US$000
Fixed rate			
Short-term deposits	11,500	-	11,500
Long-term financial assets	-	4,680	4,680
			16,180

	Within 1 year US$000	1-2 years US$000	Total US$000
Floating rate			
Cash	11,138	-	11,138
Bank loans	-	(9,582)	(9,582)
			1,556

The following table demonstrates the sensitivity of finance revenue and finance costs to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on fixed rate short-term deposits and applicable bank loans).

Increase/decrease in interest rate	Effect on (loss) before tax 2008 US$000	Effect on (loss) before tax 2007 US$000
+0.75%	230	456
-0.75%	(230)	(456)

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

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

Company

Year ended 31 December 2008

	Within 1 year US$000	1-2 years US$000	Total US$000
Fixed rate			
Short-term deposits	35,447	-	35,447
Long-term financial assets	-	1,500	1,500
			36,947

	Within 1 year US$000	1-2 years US$000	Total US$000
Floating rate			
Cash	2,311	-	2,311
Bank loans	(32,105)	-	(32,105)
			(29,794)

Year ended 31 December 2007

	Within 1 year US$000	1-2 years US$000	Total US$000
Fixed rate			
Short-term deposits	7,000	-	7,000
Long-term financial assets	-	4,680	4,680
			11,680

	Within 1 year US$000	1-2 years US$000	Total US$000
Floating rate			
Cash	172	-	172
Bank loans	-	(9,582)	(9,582)
			(9,410)

Credit risk

The Group's and Company's exposure to credit risk relating to financial assets arises from the default of a counterparty with a maximum exposure equal to the carrying value as at the balance sheet date. 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. 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.

Foreign currency risk

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

	Group 2008 US$000	2007 US$000	Company 2008 US$000	2007 US$000
Cash and cash equivalents:				
Pounds sterling	5,812	3,550	1,973	20
Canadian dollars	164	238	123	36
Norwegian kroner	4,474	2,931	-	-
Singapore dollars	60	51	-	-
Indonesian rupiah	74	92	-	-
Euros	47	77	-	-
Accounts receivable:				
Pounds sterling	2,235	5,458	211	-
Norwegian kroner	-	3,387	-	-
Trade payables:				
Pounds sterling	2,776	5,730	1,371	20
Canadian dollars	11	42	11	36
Indonesian rupiah	124	150	-	-
Euros	53	26	42	44
Bank loans:				
Pounds sterling	7,354	9,582	7,354	9,582

The following table demonstrates the Group's sensitivity to a 10% increase or decrease in the US Dollar against the Pounds sterling. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in the foreign currency rate.

Increase/decrease in foreign exchange rate	Effect on (loss) before tax 2008 US$000	Effect on (loss) before tax 2007 US$000
10% strengthening of US$ against £GBP	140	260
10% weakening of US$ against £GBP	(140)	(260)
10% strengthening of US$ against NOK	(447)	(632)
10% weakening of US$ against NOK	447	632

Liquidity risk
The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted payments. The Group monitors its risk to a potential shortage funds by monitoring the maturity dates of existing debt. Calculations in the table below use interest rates on variable rate loans based on a forward curve. The liability shown is the amount due as at 31 December 2008 gross of associated unamortised financing costs.

Year ended 31 December 2008

	Within 1 year US$000	1-2 years US$000	Total US$000
Interest bearing bank loans	32,876	-	32,876

Year ended 31 December 2007

	Within 1 year US$000	1-2 years US$000	Total US$000
Interest bearing bank loans	-	9,806	9,806

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

Group	Book value 2008 US$000	2007 US$000	Fair value 2008 US$000	2007 US$000
Financial assets				
Cash and deposits	56,822	22,638	56,822	22,638
Financial assets	1,500	4,680	1,500	4,680
Trade and other receivables *	5,746	19,038	5,746	19,038
Other receivables *	3,945	1,224	3,848	1,155
Financial liabilities				
Trade and other payables *	(14,599)	(23,604)	(14,599)	(23,604)
Bank loans *	(32,105)	(9,582)	(32,105)	(9,582)

Company	Book value 2008 US$000	2007 US$000	Fair value 2008 US$000	2007 US$000
Financial assets				
Cash and deposits	37,758	7,172	37,758	7,172
Financial assets	1,500	4,680	1,500	4,680
Trade and other receivables *	157,285	115,343	157,285	115,343
Financial liabilities				
Trade and other payables *	(8,366)	(6,376)	(8,366)	(6,376)
Bank loans *	(32,105)	(9,582)	(32,105)	(9,582)

* at amortised cost

Fair values are based on management's best estimates after consideration of current market conditions. The estimates are subjective and involve judgement, and as such are not necessarily indicative of the amounts that the Group may incur in actual market transactions. The carrying value of the Group's and Company's financial assets and liabilities are assumed to approximate their fair values where discounting is not material.

Capital management

The primary objective of the Group's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration and development expenditure, and to safeguard the entity's ability to continue as a going concern and create shareholder value. At 31 December 2008, capital employed of the Group amounted to US$197.6 million (comprised of US$165.5 million of equity shareholders' funds and US$32.1 million of borrowings), compared to US$125.5 million at 31 December 2007 (comprised of US$115.9 million of equity shareholders' funds and US$9.6 million of borrowings). At 31 December 2008, capital employed of the Company amounted to US$319.4 million (comprised of US$287.3 million of equity shareholders' funds and US$32.1 million of borrowings), compared to US$253.6 million at 31 December 2007 (comprised of US$244.0 million of equity shareholders' funds and US$9.6 million of borrowings).

The Group monitors the capital structure and seeks to adjust this as considered appropriate. In Q4 2007 the Group entered into a US$100 million senior secured debt facility, in January 2008 equity shareholders' funds were increased by the raising of a further net US$49 million of capital and in August further cash of US$52.7 million was generated from a part disposal of the Kambuna asset.

The Group begins 2009 in a financial position to meet its capital management objectives through utilisation of its existing cash balances and the remaining available funding from its loan facility. The start of revenues from the retained Kambuna interest and the control that the Company can exert over its exploration programmes both through operatorship and through the large interests that it holds leave it well placed to manage its commitments through the current difficult financial environment.

In February 2009, the facility was extended until November 2009 when refinancing will be required. The refinancing cannot be considered certain in the current environment, however the recent extension of the existing debt facility demonstrates the relationship that the Company has built with its major lenders in recent years. Management intends to continue taking a prudent approach to financial management so as to retain the strength that it has built to-date.

25. EQUITY SHARE CAPITAL

	2008 Number	2008 US$000	2007 Number	2007 US$000
Authorised:				
Ordinary shares of US$0.10	250,000,000	25,000	200,000,000	20,000
Ordinary 'A' share of £50,000	1	90	1	90
	250,000,001	**25,090**	**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 ordinary 'A' share has no special rights.

In January 2008 the authorised ordinary share capital was increased from 200,000,000 ordinary shares to 250,000,000 ordinary shares of US$0.10.

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:	Number	Share capital US$000	Share premium US$000	Total Share capital US$000
Group				
As at 1 January 2007	150,537,956	15,144	142,139	157,283
Options exercised (i)	1,110,001	111	1,477	1,588
As at 1 January 2008	151,647,957	15,255	143,616	158,871
Shares issued (ii)	24,770,354	2,477	46,104	48,581
Options exercised (iii)	100,000	10	171	181
As at 31 December 2008	**176,518,311**	**17,742**	**189,891**	**207,633**

Allotted, issued and fully paid:	Number	Share capital US$000	Share premium US$000	Total Share capital US$000
Company				
As at 1 January 2007	150,537,956	15,144	106,867	122,011
Options exercised (i)	1,110,001	111	1,477	1,588
As at 1 January 2008	151,647,957	15,255	108,344	123,599
Shares issued (ii)	24,770,354	2,477	46,104	48,581
Options exercised (iii)	100,000	10	171	181
As at 31 December 2008	**176,518,311**	**17,742**	**154,619**	**172,361**

(i) From 1 January 2007 until 31 December 2007, 1,110,001 employee share options were converted to ordinary shares at prices ranging from Cdn$1.00 to Cdn$2.00.
(ii) In January 2008, 19,826,954 ordinary shares were issued at £1.02 and 4,943,400 at Cdn$2.10. The proceeds net of expenses are credited to share capital and share premium.
(iii) In June 2008, 100,000 share options were converted to ordinary shares at a price of Cdn$1.80.

26. ADDITIONAL CASH FLOW INFORMATION

Analysis of Group net cash

	1 January 2008 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2008 US$000
Cash	11,138	(1,181)	-	9,957
Short-term deposits	11,500	35,365	-	46,865
	22,638	**34,184**	**-**	**56,822**

Analysis of Company net cash

	1 January 2008 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2008 US$000
Cash	172	2,139	-	2,311
Short-term deposits	7,000	28,447	-	35,447
	7,172	**30,586**	**-**	**37,758**

27. SHARE-BASED PAYMENTS

Share Option Plans

Following a Reorganisation in 2005 (see note 1), the Company established an option plan (the "Serica 2005 Option Plan") to replace the Serica Energy Corporation Share Option Plan (the "Serica BVI Option Plan"). The objective of these plans is to develop the interest of Directors, officers, key employees and certain consultants of the Group in the growth and development of the Group by providing them with the opportunity to acquire an interest in the Company and to assist the Company in retaining and attracting executives with experience and ability.

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 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 2,322,500 ordinary shares of the Company. No further options will be granted under the Serica BVI option plan.

As at 31 December 2008, the Company has granted 8,734,000 options under the Serica 2005 Option Plan, 8,479,000 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% of the issued ordinary shares of the Company from time to time in line with the recommendations of the Association of British Insurers.

3,020,000 of the 8,479,000 options currently outstanding under the Serica 2005 Option Plan are exercisable only if certain performance targets being met. These include the following options subject to market conditions; 220,000 options awarded to executive directors in December 2005, 1,200,000 options awarded to non-executive directors in August 2007, and 850,000 options awarded to executive directors in March 2008. In October 2008, 750,000 options were awarded to an executive director exercisable only if certain operational 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. There are no cash settlement alternatives. The estimated fair value of options is amortised to expense over the options' vesting period. US$1,781,000 has been charged to the income statement in the year ended 31 December 2008 (2007 – US$1,962,000) and a similar amount credited to other reserves. Of this total charge US$216,000 (2007 – US$243,000) was in respect of key management personnel (defined in note 7).

The assumptions made for the options granted during 2005, 2006 and 2007 and March 2008 include a weighted average risk-free interest rate of 6%, no dividend yield and a weighted average expected life of options of three years. The volatility factor of expected market price of 50% used for options granted during 2005 and 2006 was reduced to 40% for options granted in 2007 and March 2008. The assumptions made for the options granted in October 2008 include a weighted average risk-free interest rate of 4%, no dividend yield, a weighted average expected life of options of three years and a volatility factor of expected market price of 50%.

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

Serica BVI option plan	**2008 Number**	**2008 WAEP Cdn$**	**2007 Number**	**2007 WAEP Cdn$**
Outstanding as at 1 January	2,722,500	1.57	3,975,834	1.57
Expired during the year	(300,000)	1.80	(143,333)	1.63
Exercised	(100,000)	1.80	(1,110,001)	1.58
Outstanding as at 31 December	2,322,500	1.53	2,722,500	1.57
Exercisable as at 31 December	2,322,500	1.53	2,155,833	1.58

Serica 2005 option plan		**£**		**£**
Outstanding as at 1 January	5,067,000	1.00	2,516,000	1.01
Granted during the year	3,412,000	0.69	2,661,000	1.01
Cancelled during the year	-	-	(110,000)	0.97
Outstanding as at 31 December	8,479,000	0.87	5,067,000	1.00
Exercisable as at 31 December	2,678,000	1.01	989,000	1.00

The weighted average share price at the date of exercise for the options exercised is Cdn$1.90 (2007 – Cdn$2.25).

For the Serica BVI option plan, the exercise price for outstanding options at the 2008 year end ranges from Cdn$1.00 to Cdn$2.00 (2007: Cdn$1.00 to Cdn$2.00). For the Serica 2005 option plan, the exercise price for outstanding options at the 2008 year end ranges from £0.40 to £1.12 (2007:£0.96 to £1.12).

28. COMMITMENTS UNDER OPERATING LEASES

Operating lease agreements where the Group is lessee
At 31 December 2008 the Group has entered into commercial leases in respect of rental of office premises, office equipment and motor vehicles.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Group		Company	
	2008	2007	2008	2007
	US$000	US$000	US$000	US$000
Not later than one year	328	381	-	-
After one year but not more than five years	72	472	-	-
	400	853	-	-

29. CAPITAL COMMITMENTS AND CONTINGENCIES

During the third quarter 2008 the Company contracted the Northern Offshore Energy Enhancer jack-up drilling rig to drill the Chablis well. As at 31 December 2008 the Company had a commitment for 13 remaining days at a gross cost of US$2.6 million. Serica's net share of these costs is expected to reflect its paying interest of 44%.

At 31 December 2008, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation assets amounted to US$5.9 million for the Group and US$nil for the Company (2007 - US$4.6 million and US$nil respectively).

The Group has obligations to carry out defined work programmes on its oil and gas properties, under the terms of the award of rights to these properties. As at 31 December 2008, the Group anticipates it will discharge its minimum financial obligations as follows:

Year ending 31 December 2009 US$2,518,000
Year ending 31 December 2010 US$16,400,000

These obligations reflect the Group's share of interests in the defined work programmes and are not formally contracted at 31 December 2008. The Group is not obliged to meet other joint venture partner shares of these programmes.

The Group has to provide security for a proportion of its future obligations to defined work programmes and fulfils this obligation through the Company providing US$1.5 million of cash collateral included as a financial asset (restricted cash) as at 31 December 2008.

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

30. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH DIRECTORS

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

The Company's related parties consist of its subsidiaries and the transactions and amounts due to/due from them are disclosed in the accompanying notes to the Company financial statements.

31. POST BALANCE SHEET EVENTS

On 19 March 2009, the Company reached agreement with Australian Worldwide Exploration Limited ("AWE") on the terms of a farm-out of part of Serica's interest in the Block 06/94 Production Sharing Contract offshore Vietnam ("the PSC"). The agreement is subject to the approval of the government of Vietnam. Under the agreement, AWE will bear Serica's 33.33% share of the costs of the three well drilling programme in the PSC, subject to a financial cap, in order to earn an interest of 23.33% in the PSC, with Serica retaining a 10% interest.

In March 2009 Serica contracted the Ocean Guardian semi-submersible drilling rig to drill the Bandon exploration prospect off the west coast of Ireland in Licence PEL 01/06. Serica's costs on this well will be largely carried by RWE-DEA, which is farming in to earn a 50% interest in the Licence, with Serica retaining 50%.

GROUP PROVED PLUS PROBABLE RESERVES
UNAUDITED

	Western Europe		South East Asia		Total	Total	Total
	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil&gas mmboe
At 1 January 2008	-	-	6.4	77.6	6.4	77.6	19.3
Disposals	-	-	(1.5)	(17.9)	(1.5)	(17.9)	(4.5)
Revisions	2.4	38.7	0.9	6.7	3.3	45.4	13.7
Production	-	-	-	-	-	-	-
At 31 December 2008	**2.4**	**38.7**	**5.8**	**66.4**	**8.2**	**105.1**	**28.5**
Proved developed	-	-	-	-	-	-	-
Proved undeveloped	1.0	17.0	3.6	40.9	4.6	57.9	16.0
Probable developed	-	-	-	-	-	-	-
Probable undeveloped	1.4	21.7	2.2	25.5	3.6	47.2	12.5
At 31 December 2008	**2.4**	**38.7**	**5.8**	**66.4**	**8.2**	**105.1**	**28.5**

Proved and probable reserves are based on independent reports prepared by consultants RPS Energy (for the Kambuna Field in Indonesia) and Netherland, Sewell & Associates (for the Columbus Field in the UK North Sea) in accordance with the reserve definitions of the Canadian Oil and Gas Evaluation Handbook. Gas reserves at 31 December 2008 have been converted to barrels of oil equivalent using a factor of 6.0 bcf per mmboe for Western Europe (Columbus field reserves) on the basis of a nominal gas calorific value of 1,000 BTU per cubic foot and using a factor of 4.8 bcf per mmboe for South East Asia (Kambuna field reserves) on the basis of a nominal gas calorific value of 1,240 BTU per cubic foot. In previous years, the oil equivalent figures for all reserves were calculated using a conversion factor of 6.0 bcf per mmboe and the variation due to the present adoption of a more representative factor for Kambuna gas has been taken into account in "Revisions".

Kambuna entitlement reserves

The Group provides for amortisation of costs relating to evaluated properties based on direct interests on an entitlement basis, which incorporates the terms of Production Sharing Contracts in South East Asia. For Kambuna alone, proved plus probable reserves on an entitlement basis totalled 12.4 mmboe as at 31 December 2008 (2007: 13.9 mmboe). This was calculated in 2008 using a Kambuna forecast condensate price assumption of Brent – 0.18% (2007: US$93.51/bbl) and gas prices in accordance with known contract terms.

GLOSSARY

bbl	barrel of 42 US gallons
bcf	billion standard cubic feet
boe	barrels of oil equivalent (barrels of oil, condensate and LPG plus the heating equivalent of gas converted into barrels at a rate of 4,800 standard cubic feet per barrel for Kambuna, which has a relatively high calorific value, and 6,000 standard cubic feet per barrel for Columbus)
bopd or bpd	barrels of oil or condensate per day
FPSO	Floating Production, Storage and Offtake vessel (often a converted oil tanker)
LNG	Liquefied Natural Gas (mainly methane and ethane)
LPG	Liquefied Petroleum Gas (mainly butane and propane)
mcf	thousand cubic feet
mmbbl	million barrels
mmBtu	million British Thermal Units
mmscfd	million standard cubic feet per day
PSC	Production Sharing Contract
Proved Reserves	Proved reserves are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
Probable Reserves	Probable reserves are those additional Reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved + Probable reserves.
Possible Reserves	Possible reserves are those additional Reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated Proved + Probable + Possible reserves
Reserves	Estimates of discovered recoverable commercial hydrocarbon reserves calculated in accordance with the Canadian National Instrument 51 101
Contingent Resources	Estimates of discovered recoverable hydrocarbon resources for which commercial production is not yet assured, calculated in accordance with the Canadian National Instrument 51 101
Prospective Resources	Estimates of the potential recoverable hydrocarbon resources attributable to undrilled prospects, calculated in accordance with the Canadian National Instrument 51 101
TAC	Technical Assistance Contract
tcf	trillion standard cubic feet

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