SERICA2009

SERICA ENERGY PLC ANNUAL REPORT AND ACCOUNTS 2009

2009 WAS NEVER GOING TO BE AN EASY YEAR, BUT WE SUCCEEDED IN LAYING THE FOUNDATIONS FOR AN EXCITING FUTURE AND NOW LOOK FORWARD TO SEEING THE RESULTS OF OUR 2010 EXPLORATION PROGRAMME

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.

Serica Energy plc
Annual Report and Accounts 2009

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HIGHLIGHTS

Operational

Start of production at the Kambuna field

- Production and gas sales started in August
- First condensate sales in September
- Wells performing as planned

Columbus development advances with new export route

- BG Group drills successful wells immediately south of Columbus
- Agreements in preparation for export via BG's Lomond field
- Bridge-linked platform to Lomond field is expected export route

Exploration acreage added in new and core areas

- Morocco – Sidi Moussa and Foum Draa offshore blocks – 12,700 sq km
- UK – Block 22/19c in Central North Sea, west of Columbus – 150 sq km
- Ireland – offshore frontier Licence FEL 1/09 in Rockall Basin – 993 sq km

2009 exploration results mixed but low cost

- UK – Chablis appraisal well found gas but insufficient for development
- Ireland – Bandon exploration well was an unexpected oil discovery
- Vietnam – Tuong Vi exploration well was dry and Serica left Vietnam
- All three wells had been farmed out, significantly reducing Serica's cost

2010 exploration drilling programme has high potential

- Conan prospect (East Irish Sea) – 500 bcf target – 65% interest
- Oates prospect (Central North Sea) – 78 mm boe target – 50% interest
- Dambus prospect (Indonesia Kutai) – 200 mm boe target – 30% interest
- Total unrisked prospective resources net to Serica – 160 mmboe

Financial

Substantial contribution from asset disposal and farm-outs

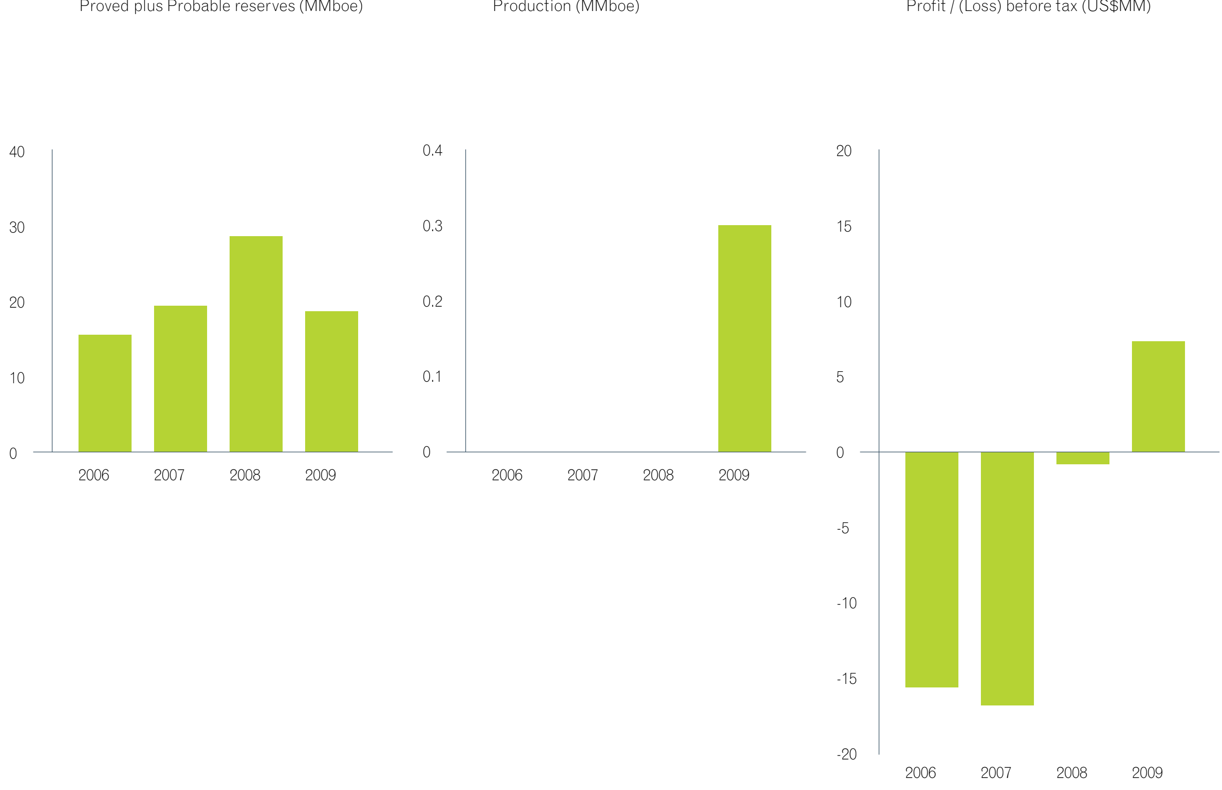
- US$99 million sale of 25% of Kambuna TAC and some exploration assets
- Bandon farm-out raised 100% of well costs
- Oates farm-out raised 100% of well costs
- Conan farm-out raised 70% of well costs

First significant production revenue and profit

- US$26.9 million profit on partial disposal of assets in South East Asia
- US$7.6 million oil and gas sales revenue
- US$7.3 million pre-tax profit (loss of US$0.8 million in 2008)
- US$73 million net current assets (US$22 million in 2008)
- Bank facility renewed for three years

SUMMARY FOR 2009

	Proven and probable 2009	Proven and probable 2008
Company net oil and gas reserves		
(working interest basis)		
At 31 December		
Gas – *million cubic feet*	71,400	105,100
Condensate and LPG – *barrels*	5,240,000	8,180,000
Total – *barrels of oil equivalent*	18,500,000	28,483,000
Financial position		
Market capitalisation – *US$*	160 million	79 million
Net current assets – *US$*	73 million	22 million
Cash – *US$*	18 million	57 million
Number of shares in issue	176,518,311	176,518,311
Number of shares fully diluted	187,165,311	187,319,811



Kambuna field production operations are managed from a central control room located adjacent to the onshore gas processing plant at Pangkalan Brandan and from here each part of the process equipment can be monitored and controlled and safe operation of the plant ensured. The operators here can also control the three Kambuna production wells located 40 kilometres offshore, so that well production rates can be matched to the local gas demand from day to day.

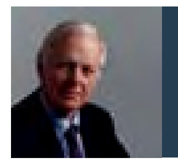
LICENCE INTERESTS

The following table summarises the Company's interests in Western Europe, North Africa and South East Asia.

Block(s)	Description	Role	% interest	Location
UK				
22/19c	Exploration	Partner (1)	50% (1)	Central North Sea
23/16f	Columbus field	Operator	50%	Central North Sea
23/16g	Exploration	Operator	50%	Central North Sea
48/17d	Chablis appraisal	Operator	65%	Southern Gas Basin
113/26b	Exploration	Partner	65% (2)	East Irish Sea
113/27c	Exploration	Partner	65% (2)	East Irish Sea
23/16g	Exploration	Operator	50%	Central North Sea
Ireland				
27/4	Exploration	Operator	50%	Slyne Basin
27/5 (part)	Exploration	Operator	50%	Slyne Basin
27/9	Exploration	Operator	50%	Slyne Basin
5/17	Exploration	Operator	100%	Rockall Basin
5/18	Exploration	Operator	100%	Rockall Basin
5/22	Exploration	Operator	100%	Rockall Basin
5/23	Exploration	Operator	100%	Rockall Basin
5/27	Exploration	Operator	100%	Rockall Basin
5/28	Exploration	Operator	100%	Rockall Basin
Morocco				
Foum Draa	Exploration	Partner	25%	Agadir Basin
Sidi Moussa	Exploration	Partner	25%	Agadir 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	25% (3)	Offshore North Sumatra
Kutai PSC	Exploration	Operator	30% (4)	Kutai Basin
East Seruway PSC	Exploration	Operator	100%	Offshore North Sumatra

Notes:
(1) Interest 50% following transfer of 50% interest and operatorship to Premier Oil plc
(2) Interest 65% following transfer of 35% interest to Agora Oil and Gas (UK) AS
(3) Interest shown after disposal of a 25% interest to KrisEnergy.
(4) On 31 December 2009 the Company had an effective working interest of 30% following the disposal of a 23.4% interest to Salamander Energy in 2008 and a further 24.6% interest to KrisEnergy in 2009. These transfers have now received governmental approval.
(5) On 31 December 2009 the Company no longer held any interests in Vietnam having disposed of its 33.3% interest in Block 06/94 to KrisEnergy.

CAREFUL MANAGEMENT OF OUR ASSET PORTFOLIO AND A NUMBER OF SUCCESSFUL TRANSACTIONS TOWARDS THE END OF THE YEAR ENABLES US TO START 2010 IN A STRONG FINANCIAL POSITION



Dear Shareholder

I am delighted to be able to report that 2009 was a good year for Serica, achieved against a very difficult economic background. Careful management of our asset portfolio and a number of successful transactions towards the end of the year enables us to start 2010 in a strong financial position with our first field on production and exposure to several high quality exploration prospects, any one of which has the potential to add substantial value. Serica is also able to report the Company's first significant pre-tax profit at US$7.3 million for the year against a prior year loss of US$0.8 million.

This positive outcome is the result of applying strict financial controls during an extremely difficult year for industry in general, caused largely by the recession and the continuing financial fall-out from the banking crisis. It has been our policy to focus the Company's skills towards identifying exploration prospects in which we can retain high percentage interests and operational control but which are also sufficiently material that we can reduce or eliminate our costs and risk through farm-out to industry partners.

In following this strategy to control exploration costs the Company has been extremely successful. In 2009 we drilled the Bandon, Chablis and Tuong Vi wells in Ireland, the UK and Vietnam respectively with a large part of our costs paid by third parties. The first two of these encountered hydrocarbons, albeit non-commercial but the result at Bandon holds out promise for this very underexplored basin offshore the west coast of Ireland in which we have now demonstrated the presence of oil. We plan to drill further wells offshore Ireland in 2011.

For 2010, our drilling programme involves five wells with Serica holding large percentage interests in each. All of these prospects were identified by the Company. In two of them, the Conan and Oates wells, our costs, and thus the downside risks, are fully or partially met by industry partners, a further demonstration of our strategy to control downside exposure. Four of the wells to be drilled in this programme will be drilled by the Company as operator, thereby enabling us to retain a high degree of control of timing in addition to the risk and cost savings resulting from farm-out.

A further strand of our policy is to realise the value of assets in which we see limited opportunity for growth and to reinvest the proceeds into projects which we believe have the potential for greater investment returns and which better match our skill set. The Kambuna field in Indonesia fits into this category. In 2008 we sold a 15% interest in the field, realising a profit of US$36.6 million. In 2009, we realised a further profit from the sale of a 25% interest. This latter sale was made together with part of our Kutai exploration block plus our full interest in Vietnam, where disappointing drilling results reduced our perception of value and resulted in a strategic decision to withdraw. The sale of these properties contributed a profit of US$26.9 million net of associated carrying costs. After these sales we still have a 25% holding in the Kambuna field which started production in August 2009 and is expected to yield, net to our interest, some 3,000 boepd of gas and condensate production in 2010.

This approach to risk and value is the basis by which the Company has been able to maintain a robust financial position in difficult financial markets without recourse to shareholders to meet drilling costs. At the end of 2009 cash balances stood at US$18.4 million with debt standing at US$71 million. In January 2010, cash balances increased following the receipt of US$100 million outstanding from the partial sale of the Kambuna and Kutai interests and the disposal of our stake in Vietnam. As a result the Company is now in a net cash position.

The prudent management of our cash resources, combined with limiting our exposure to unfunded drilling commitments, has given us the option now to seek new opportunities whilst we explore the material potential in our existing portfolio. It places us in a good position to exploit the acquisition market should assets complementary to our business become available. We intend to pursue such opportunities if we believe real value can be added.

In summary, I and my fellow directors, have high expectations for 2010. The Company has positioned itself well for the recovery in the markets, production levels at Kambuna are expected to continue to improve and we continue to work on the development of the Columbus field. Successful drilling results from any of the wells in our near term programme would have a very large and positive impact on our underlying asset value. This position is due in no small part to the hard work and commitment of our executive and staff who have demonstrated their exceptional skills in a very difficult market. Our thanks go to them.

Tony Craven Walker
Chairman

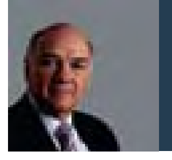
FUNDAMENTAL TO OUR EXPLORATION STRATEGY IS OUR ABILITY TO FIND PROSPECTS OF SUCH QUALITY THAT EVEN WHEN EXPLORATION BUDGETS ARE BEING CURTAILED WE ARE ABLE TO FIND PARTNERS WILLING TO FUND A LARGE PROPORTION OF THE WILDCAT DRILLING

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 2009.

Serica's activities are based in Western Europe and South East Asia, with interests in the UK, Ireland, Spain, Morocco and Indonesia. 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



2009 was a pivotal year for Serica. In August we brought the Kambuna field onstream and with it our first production revenues. With the field then close to its maximum value we monetised part of our interest through the sale to KrisEnergy announced in December. During the year we drilled two offshore wells in new areas, one in Vietnam and one in Ireland. Although no commercial discovery resulted, both wells were drilled at almost no cost to the Company. As planned, we added further offshore exploration areas to our portfolio in the UK, Ireland and Morocco and, by the end of the year, had negotiated farm-outs for the upcoming Conan and Oates wells in the UK and a contribution towards our drilling costs in Kutai offshore Indonesia as a result of the transaction with KrisEnergy.

In Indonesia, achieving first production at the Kambuna field in August 2009 was the successful culmination of four years of hard work in drilling and development and of considerable patience in putting in place the commercial arrangements necessary to bring the gas and condensate to market. The condensate is a light oil and fetches a price very close to that of Brent Crude Oil. With life of field sales contracts in place and with good realised oil prices (Brent Crude Price +/- US$1.00 on average), revenues from the field are growing as production ramps up.

It is encouraging to note that condensate yields so far remain high, at around 100 barrels per million standard cubic feet of gas. At the initial target gas rate of 40 million standard cubic feet of gas per day ("mmscfd") the field will produce around 4,000 barrels per day of condensate ("bpd"). When the permanent onshore gas processing facilities are completed this summer, it will enable production rates of 50 mmscfd and 5,000 bpd to be achieved.

In 2006, when we entered into the Production Sharing Contract for Block 06/94 in Vietnam, we saw it as the first step in an expansion of our activities in South East Asia to areas outside of Indonesia. However, we were unable to find attractive follow-on projects. The Tuong Vi exploration well in 2009 was unsuccessful although Serica's 33% share of the costs was carried by a farminee. We ultimately decided to exit Vietnam and in December announced the sale of our interest in Block 06/94 to KrisEnergy together with half of our interest in the Kambuna TAC and part of our interest in the Kutai PSC. The outstanding US$100 million balance of the total cash proceeds of US$105 million was received in January and the transaction also delivers a significant reduction in Serica's 2010 exploration cost exposure.

In May we drilled the Bandon exploration well in Licence FEL 1/06 in the Slyne Basin 80 kilometres west of the Irish coast. The Sherwood Sandstone gas prospect did not materialise, but instead we discovered an oil accumulation. Samples of the oil were recovered but the oil discovery is small and non-commercial. The results of the Bandon well do not impact on the three other large gas prospects in the licence area, Boyne, Achill and Liffey, and the licence now benefits from the new oil play that we are mapping. In 2010 we intend to carry out the required site surveys for our chosen drilling locations but, due to the weather-restricted operational season of only six months (May through October), the exploration wells will be drilled in the 2011 season.

We were pleased to announce in July the award of our second Frontier Exploration Licence offshore Ireland, FEL 1/09 in the Irish sector of the deepwater Rockall Basin. This licence contains the Muckish prospect which we had identified on 3D seismic. By the end of August Serica had completed a new "long-offset" seismic survey over the prospect in order to evaluate the likelihood of the prospect containing hydrocarbons. Processing and interpretation of the results is in progress. The Irish Rockall Basin is a highly under-explored part of the Atlantic Margin, with only three wells having been drilled to date, and Serica is looking forward to the challenge of unlocking its potential.

In the UK we saw progress with the Columbus field development, the award of new licences and successful farm-outs negotiated for the Conan and Oates prospects.

The Columbus field will be a subsea development using wellheads and production control equipment located on the seabed. The oil and gas will be taken to an existing producing field where it will be separated and processed and transported to the east coast of the UK. In January 2009 BG Group ("BG") drilled four deviated wells from a single drilling location lying between the Columbus and Lomond fields, the latter now operated by BG. These well locations were chosen by BG to test the most promising areas of the Palaeocene Forties Formation seismic anomaly first proven to be gas bearing by the Columbus discovery well. Of significance for further exploration of the anomaly in the area, all four of these wells encountered gas and two of the wells exhibited reservoir pressures similar to that in the Columbus field.

Serica is negotiating with BG the terms of an agreement that would see the Columbus field produced through the Lomond field facilities, lying about eight kilometres southeast of the Columbus discovery well. The agreement should enable the Columbus field to be brought onto production by early 2013. Front End Engineering Design ("FEED") contractors have been selected and contracts are in the final stages of negotiation. In parallel with FEED, a revised Field Development Plan should be submitted to the UK government in 2010.

We were awarded UK Central North Sea Block 22/19c in June in the UK 25th Offshore Licensing Round. This block contains the Palaeocene Forties Formation Oates and Bowers prospects that exhibit a very similar seismic anomaly to that seen at Columbus, 20 kilometres to the east. Serica has agreed a farm-out with Premier Oil under the terms of which Serica has transferred a 50% interest and operatorship to Premier which will pay 100% of the costs of the Oates well. Serica will retain a 50% interest in the block and expects the well to be drilled in June 2010. Premier has estimated the mean prospective resources on the Oates prospect to be 65 million barrels of oil equivalent.

In the UK East Irish Sea, about 50 kilometres northwest of Blackpool and ten kilometres from the one trillion cubic feet North Morecambe gas field lie Serica's Conan and Doyle gas prospects. Given the proximity of established infrastructure, even a small reserve would be commercial in these shallow waters, but the Conan prospect is of potentially significant size. In January 2010 Serica announced a farm-in agreement with Agora Oil

and Gas (UK) AS, under which Agora will contribute 70% of well costs to earn a 35% interest in the licence with Serica retaining a 65% interest and operatorship. The ENSCO 80 jack-up rig has been contracted and will be mobilised from the North Sea to the East Irish Sea to drill the Conan exploration well in the second quarter of 2010.

In Indonesia we have been making preparations to drill two offshore wells in the Kutai PSC, the Dambus and Marindan prospects. These wells will be drilled back-to-back and we expect the rig to arrive in the third quarter of 2010. Dambus is a particularly attractive prospect, with mean prospective resources of 200 million barrels of oil equivalent. Serica is the PSC operator and holds a 30% interest (post completion of disposals).

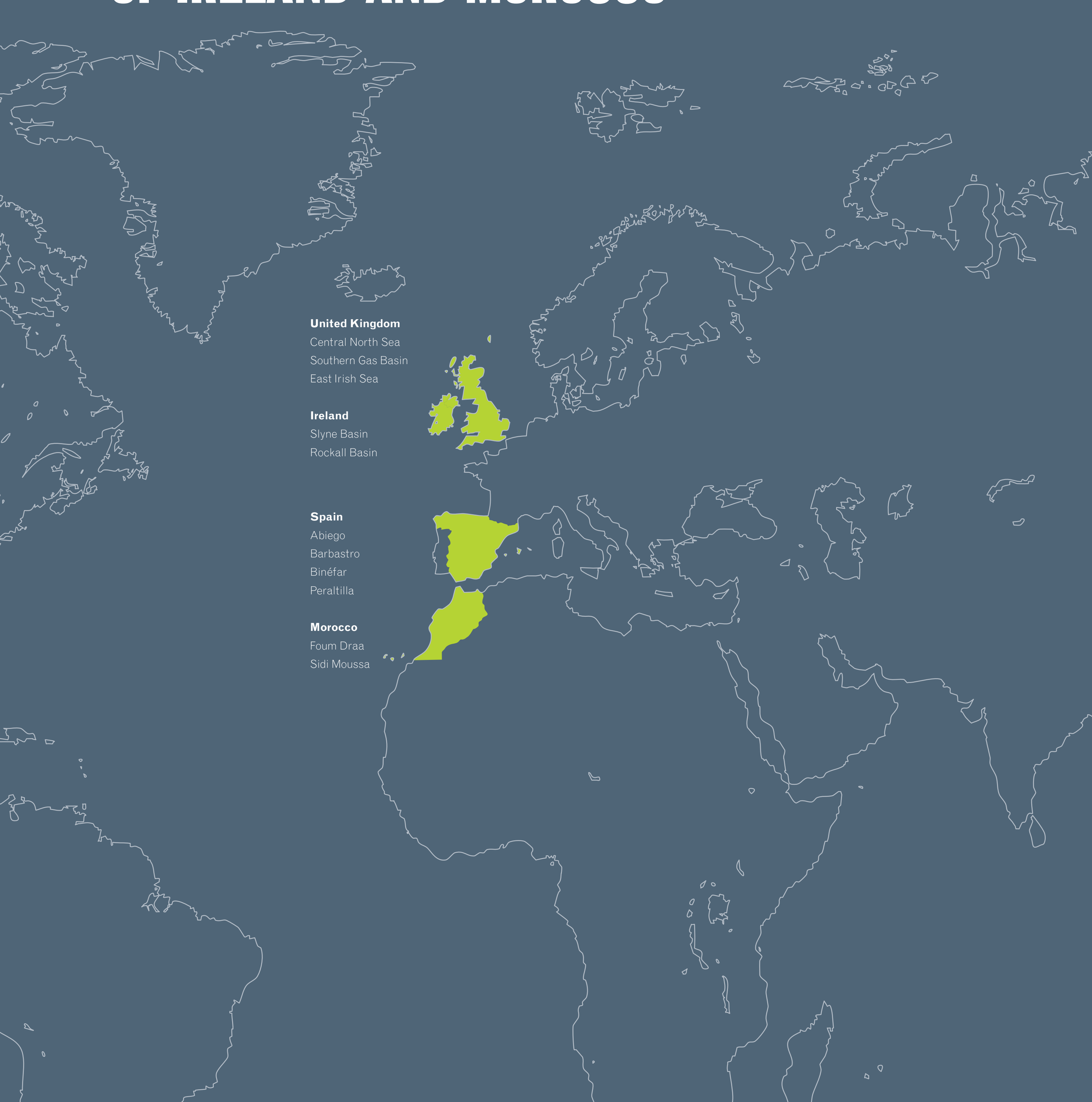
With the completion of the KrisEnergy transaction, Serica can focus more of its resources on existing and new areas outside South East Asia, where fiscal terms are more favourable and prospectivity may be more attractive. As part of this strategic move, in June we announced that we had been awarded interests in two large licences in the Atlantic Margin offshore Morocco, Foum Draa and Sidi Moussa. A 3D seismic survey already covers a large part of the acreage and work is in progress to reprocess and interpret this data. Already the prospectivity of the blocks looks encouraging, with significant structuring caused by salt diapirism and evidence that reservoir sand bodies should be present.

In November we entered into a new US$100 million senior secured revolving credit facility to replace the previous facility. The term of the new facility is three years and will support the financing of the Kambuna field, the Columbus field and other corporate purposes.

2009 was a year in which we laid the foundations for an exciting future, with the start of production revenues, a new debt facility, the awards of offshore licences with significant potential, the protection of shareholders' funds through farm-outs and the forthcoming exploration drilling programme at home and abroad. Our staff have continued to develop new opportunities for the Company and we now look forward to seeing the product of their innovation and technical skills through a successful exploration year for Serica in 2010.

Paul Ellis
Chief Executive Officer

WE CONTINUE TO DEVELOP OUR PORTFOLIO ON A SELECTIVE BASIS WITH RECENT ADDITIONS OFFSHORE UK AND IN THE ATLANTIC MARGINS OF IRELAND AND MOROCCO



PRODUCTION

Gas sales from the Kambuna field in Indonesia started in August and the first condensate shipment took place in September.

DEVELOPMENT

The Columbus field in the UK Central North Sea is now planned to be developed with export via the Lomond field using a Bridge-Linked Platform.

EXPLORATION

The Bandon well in the Slyne Basin offshore Ireland was a non-commercial oil discovery that has opened a new oil play in the basin that Serica will explore further.

Exploration acreage was added in the Central North Sea (Oates and Bowers prospects), in the Irish Rockall Basin (Muckish prospect) and offshore Morocco (Sidi Moussa and Foum Draa blocks).

SOUTH EAST ASIA ASSET DISPOSAL

In December 2009 the Company disposed of a package of assets in Indonesia and Vietnam for a consideration of US$99 million.

Following this sale the Company retains a 25% interest in the Glagah Kambuna TAC including the Kambuna field, a 30% interest in the Kutai PSC and a 100% interest in the East Seruway PSC. Serica no longer holds any interests in Vietnam.

Indonesia
Glagah Kambuna TAC
East Seruway PSC
Kutai PSC

Indonesia

Glagah Kambuna TAC

The Glagah Kambuna Technical Assistance Contract ("TAC"), operated by Salamander Energy, covers an area of approximately 380 square kilometres and lies offshore North Sumatra. The Company now holds an interest of 25% following the sale of a 25% interest in the Kambuna TAC to KrisEnergy.

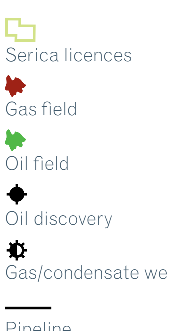
The major achievement of first production from the Kambuna field occurred in Q3 2009. Following the mechanical completion and commissioning of all facilities, initial production started on 5 August, with gas and condensate being delivered to the onshore receiving facilities at Pangkalan Brandan, north Sumatra. Commercial sales began on 11 August, with gas being introduced to the pipeline system for transportation to the Belawan Power Plant. This event provided the Company with its first significant production revenue.

Shortly after gas sales commenced, production from Kambuna was suspended at the request of the then sole buyer, the State electricity generator PLN, so that it could carry out repairs to its gas turbines. After a six week shutdown, production from the field restarted on 7 November.

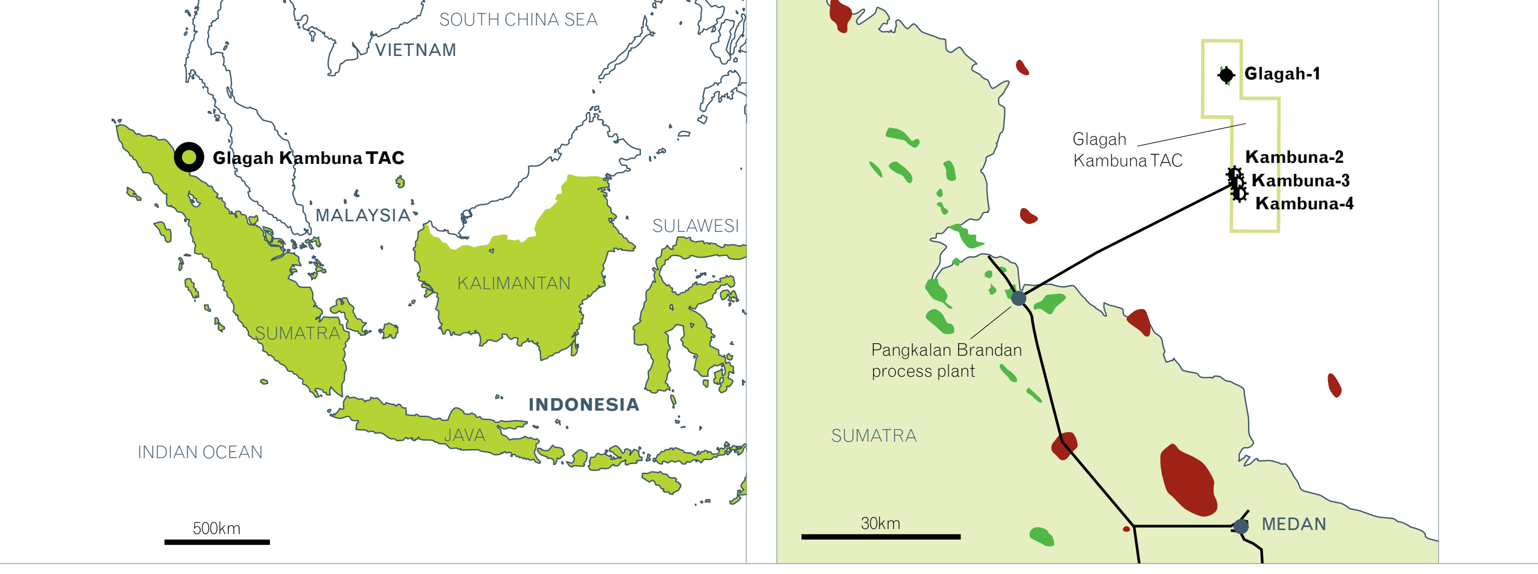
The gas sales contract with PLN provides for an average contract quantity of 35 mmscfd for the first twelve months and it has already been demonstrated that rates in excess of this can be delivered through the installed, temporary, processing facilities. Following the unplanned shut-down, it is expected that in 2010 PLN will nominate larger quantities of gas in order to reduce its potential annual take or pay liability.

Due to operational difficulties experienced by PLN, field production was lower than planned and gross sales for 2009 were 1,654 million standard cubic feet of gas and 130,000 barrels of oil.

Gas sales to the second buyer, Pertiwi Nusantara Resources ("Pertiwi") are contracted to commence in the first quarter 2010 at a rate of 12 mmscfd. Additionally a contract has been agreed with a division of Pertamina to extract LPG from the sales gas stream, which would require a boost in production of around 10% to maintain the contracted deliveries to the other customers. However, until the permanent onshore processing facility is completed in 2Q 2010, the maximum total gas sales rate will be approximately 40 mmscfd, with about 4,000 barrels of condensate per day.



Kambuna field development

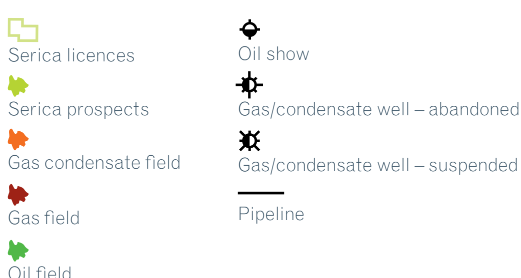


Once the permanent facilities are commissioned, total sales gas rates of approximately 50 mmscfd should be achievable. The buyers may nominate quantities in excess of the contract rates in order to make up for any shortfall. However, under the Take or Pay provisions of the gas sales contracts, at the end of each 12 month sales period the buyers are required to pay for at least 90% of any gas contracted but not taken.

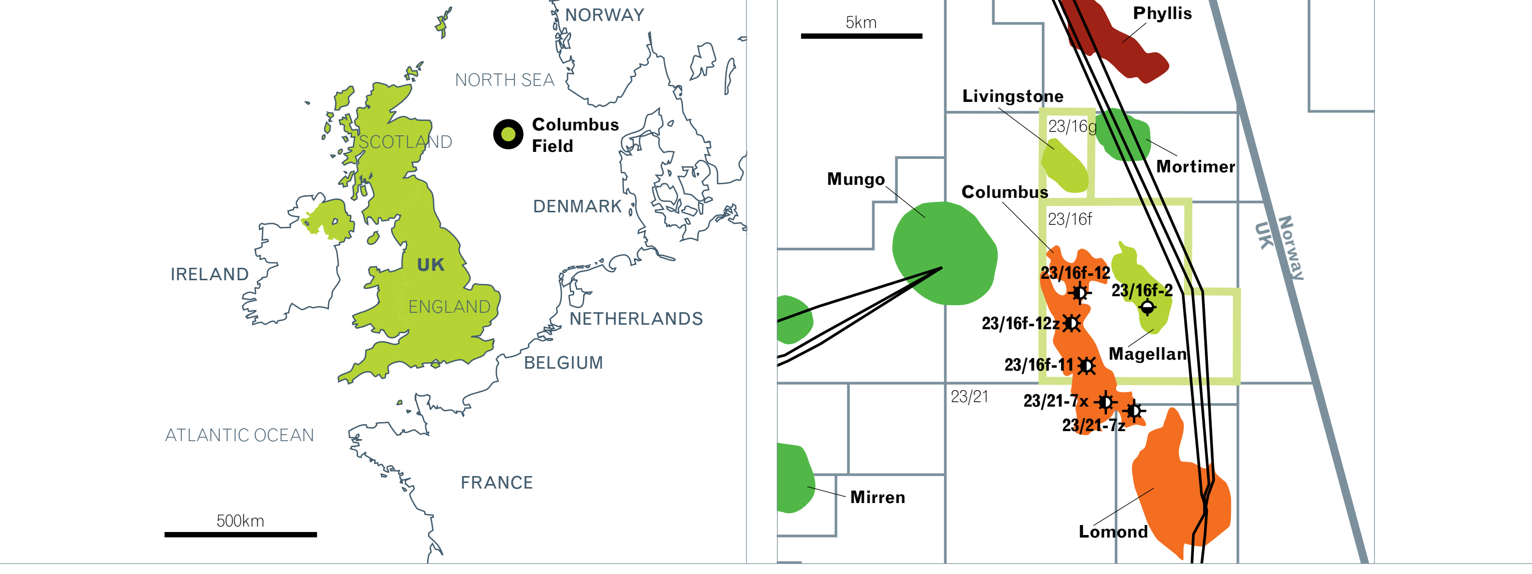
The Kambuna gas is used for power generation to supply electricity to the city of Medan in north Sumatra and for industrial uses. The gas sales prices per thousand standard cubic feet under the contracts with PLN and Pertiwi are approximately US$5.40 and $7.00 respectively, escalated at 3% per annum.

The Kambuna gas contains about 100 barrels of condensate (light oil) per million standard cubic feet, which is sold to the State oil company Pertamina at the official Attaka Indonesian Crude Price less 11 cents per barrel. Attaka has historically traded close to the price of North Sea Brent Crude.

A reserves report on the Kambuna field carried out by consultants RPS Energy estimates that at 31 December 2009 the gross Proved plus Probable Reserves of the field are 131 bcf of sales gas and 11.4 mm bbl of condensate, a total of 38.7 mm boe.



Block map of Columbus field



United Kingdom

Central North Sea – Columbus Field

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.

Serica's December 2006 Columbus discovery well, 23/16f-11, tested a Palaeocene Forties Formation sandstone 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, drilled in the third quarter 2007 both encountered gas columns and confirmed that the field had development potential.

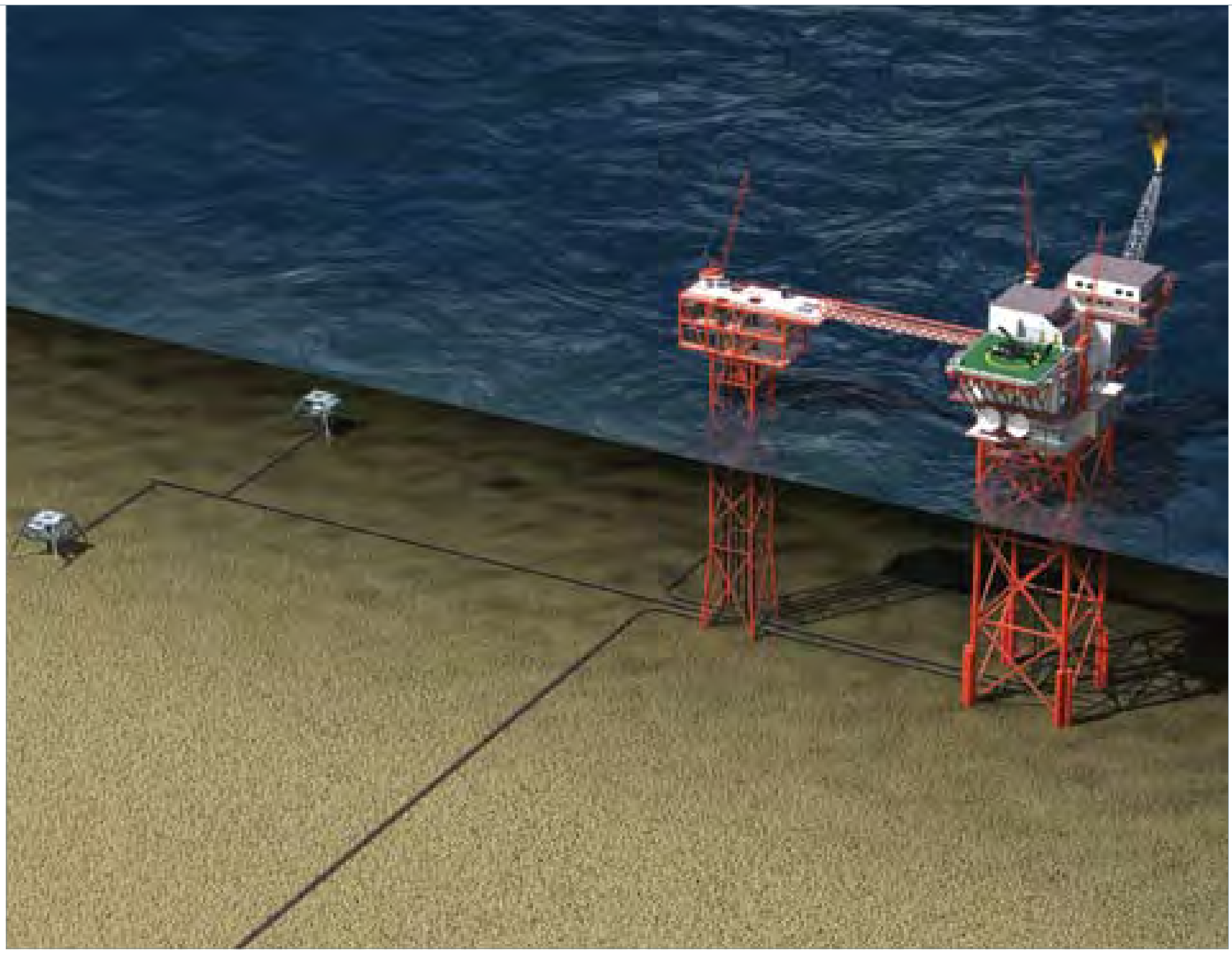
In 2008, Serica submitted a draft Field Development Programme ("FDP") for the Columbus field to the UK government. This FDP envisaged offtake via a subsea tie-back to the BP operated facilities of the Eastern Trough Area Project ("ETAP").

However, in the first quarter of 2009, in the adjacent Block 23/21, Lomond field operator BG Group ("BG") completed drilling 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 Forties Formation reservoirs and the results have improved our knowledge of the distribution of Forties sand channels in the area. Discussions with the UK Department of Energy and Climate Change ("DECC"), BG and another field operator are in progress to determine how best to commercialise the Columbus field and other gas accumulations near to the Lomond field. It is expected that a revised Field Development Programme for Columbus will be submitted to the UK government during 2010.

Independent consultants Netherland, Sewell & Associates have carried out a reserves report on the Columbus field for the end of 2009. 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. Serica holds a 50% interest in the Columbus field reserves.

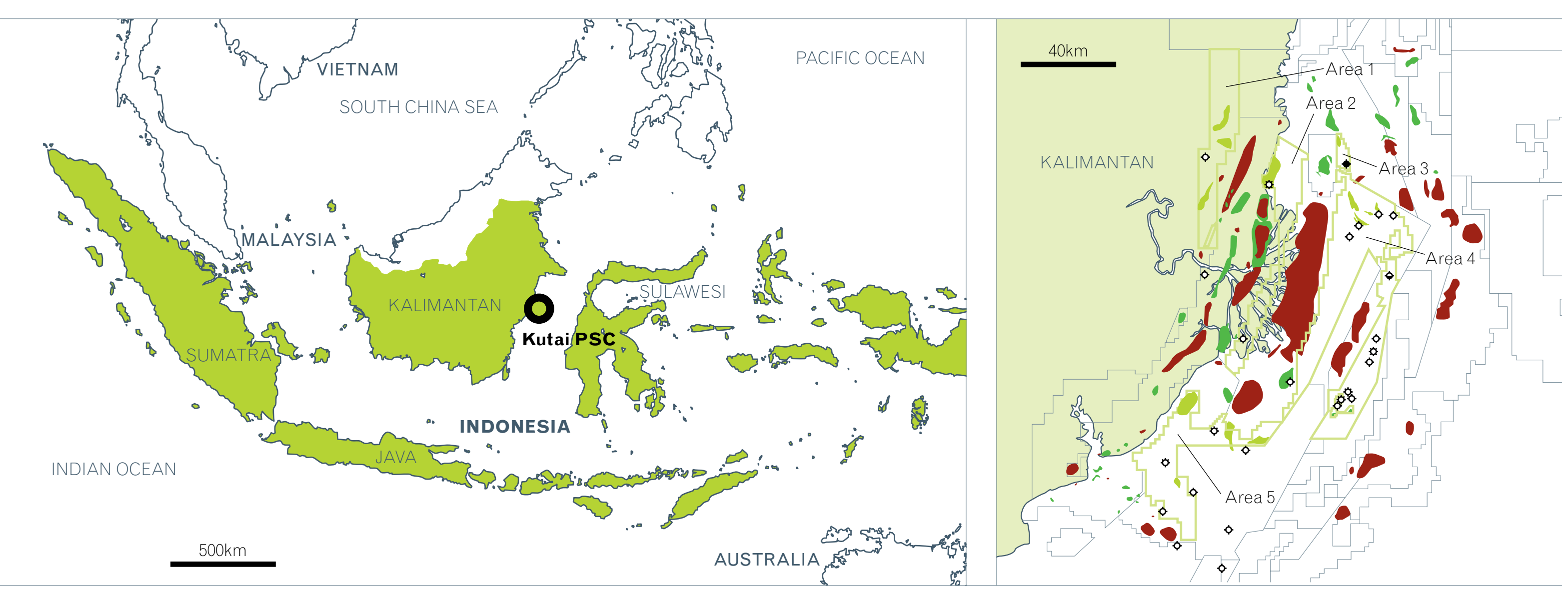
Immediately to the north of Block 23/16f lies Block 23/16g, which Serica operates and in which it holds a 50% interest. The block contains a small Forties Formation prospect called Livingstone, but the 3D seismic data here is inconclusive as to whether the prospect is likely to contain hydrocarbons.

Columbus field revised development scheme



The revised scheme for Columbus field development will include the area defined by Serica wells 23/16f-11, 23/16f-12, 23/16f-12z and BG wells 23/21-7x and 23/21-7z. Initially production will be from two new horizontal well bores via subsea well heads tied back to a new Bridge-Linked Platform ("BLP") adjacent to BG's Lomond field platform. The BLP will enable production from Columbus and two other fields to be produced via the Lomond field facilities.

Serica interests in Kutai PSC

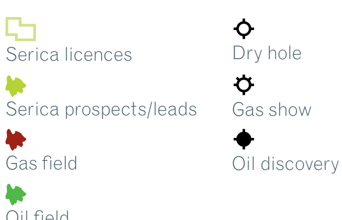


Indonesia

Kutai PSC

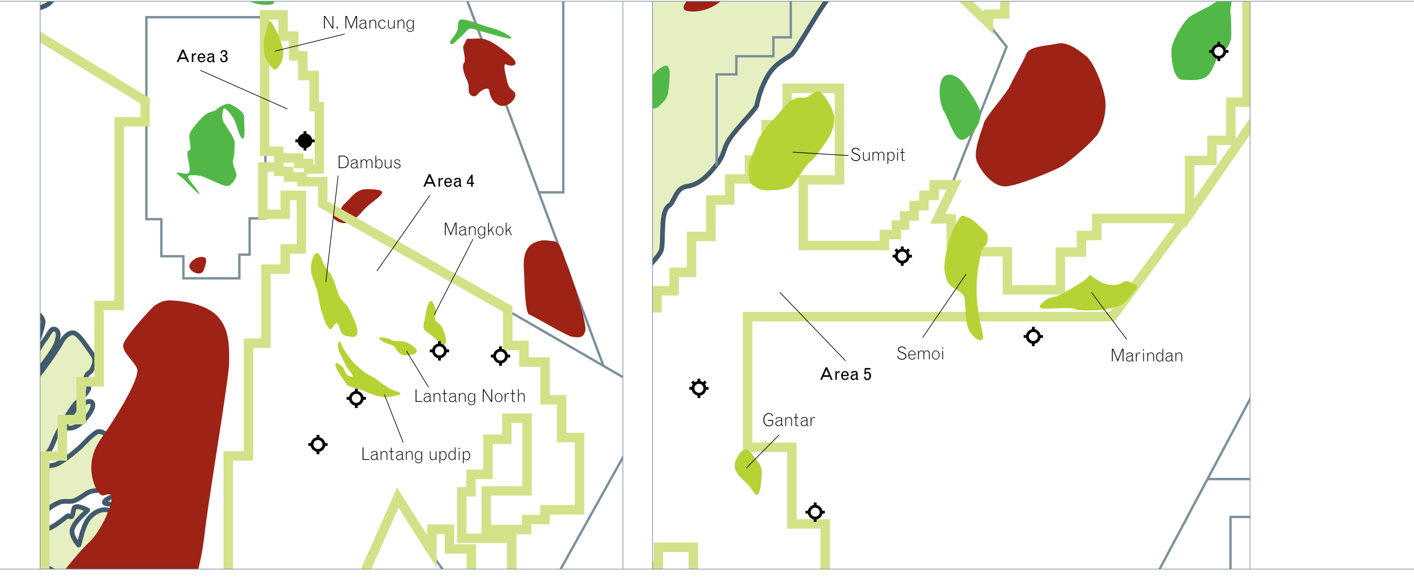
Serica is the operator of the Kutai Production Sharing Contract ("PSC") and currently holds a 30% interest (subject to certain governmental approvals and consents). The PSC is divided into five blocks located in the prolific Mahakam River delta both onshore and offshore East Kalimantan, adjacent to several giant fields, including Tunu (1,600 million boe), Attaka (800 million boe) and Peciko (>1,000 million boe).

The Company has completed seismic surveys in both the offshore and onshore parts of the PSC. In the onshore part of the Kutai PSC, Serica completed a 280 kilometre 2D seismic survey. While drilling the seismic shot holes a number of oil seeps were encountered, demonstrating the existence of a working petroleum system in the onshore part of the acreage. The interpretation of the offshore 3D seismic data has revealed several exploration targets, of which the Dambus and Marindan prospects are the most significant. In 2010, Serica expects to drill two offshore wells and one onshore well in the PSC.

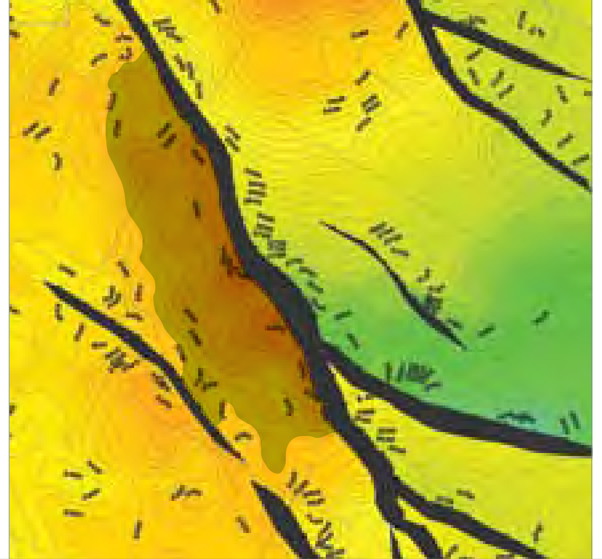


Block map of Dambus prospect

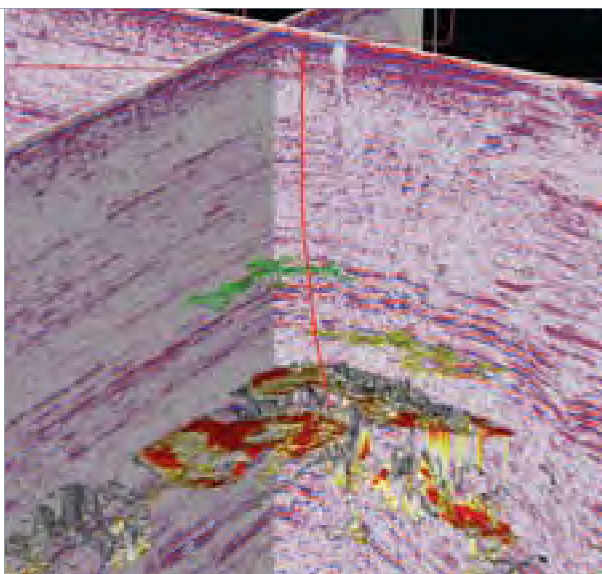
Block map of Marindan prospect



Subsurface map of Dambus prospect

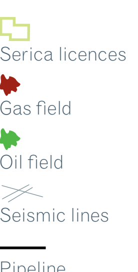


Seismic section of Marindan prospect

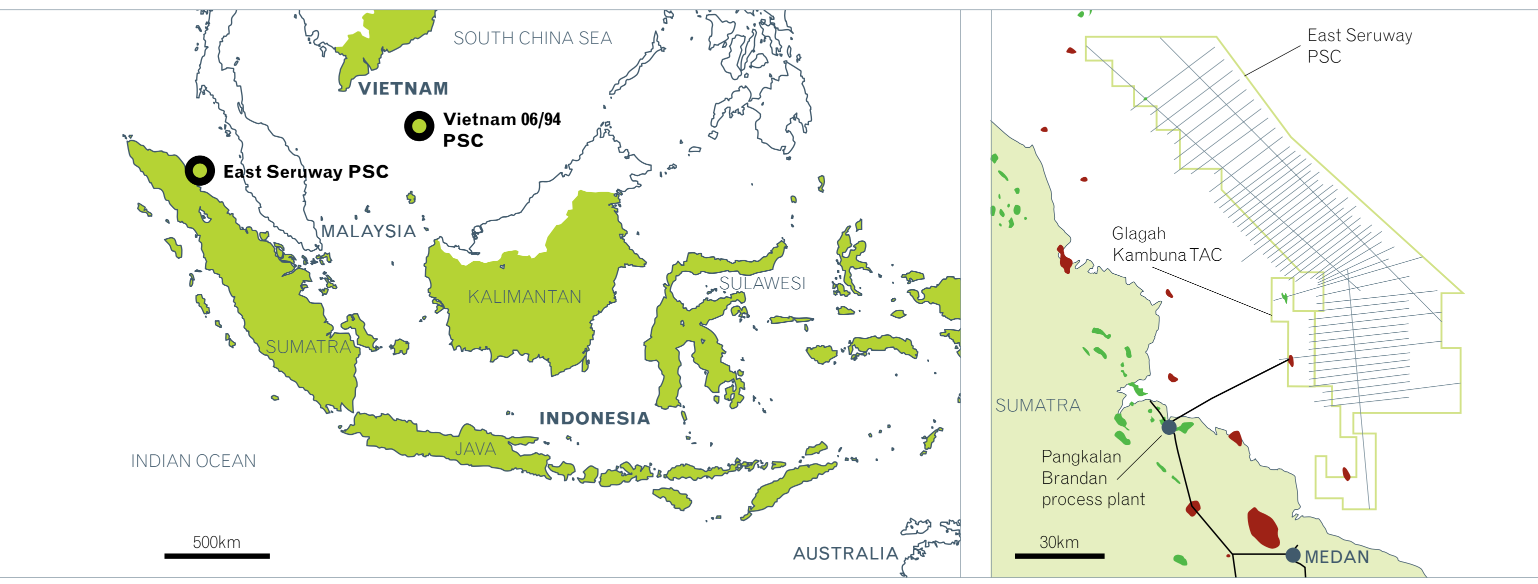


The Dambus prospect exploration well will test a deltaic clastic play of Late Miocene age on a previously undrilled three way dip and fault closed structure. The prospect is expected to have multiple stacked pay intervals over a gross interval of 1500m and will be drilled to a total depth of 2700m.

The Marindan prospect exploration well will target several Late Miocene play types on a broad regional high. The well will target both carbonate and clastic plays over a gross interval of 2800m. The well will be deviated to optimise the location at the various target reservoir levels and will be drilled to a total depth of 3265m.



Block map of East Seruway PSC



Vietnam

Block 06/94 PSC

During 2009 Serica held 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 Tuong Vi exploration well 06/94-TV-1X, in the south-western part of the block, was spudded in June 2009, targeting both oil and gas prospects. The primary target of the well was the oil potential of the Mio-Oligocene Dua and Cau Formation sandstones. The well reached a target depth of 2,700 metres and encountered good quality sands in the objective section. However no commercial volumes of hydrocarbons were found and the well was plugged and abandoned.

Under the terms of a farm-out agreement reached in March 2009 with Australian Worldwide Exploration ("AWE") Serica's share of the costs of the Tuong Vi well was carried by AWE. In August 2009, following the drilling of the Tuong Vi exploration well, Serica and AWE agreed to terminate the farm-out agreement and Serica retained its original 33.33% interest in the 06/94 PSC.

Recent activity in the Block 06/94 has included the acquisition of 600 square kilometres of 3D seismic data in an area on trend with the discovery announced by Premier Oil in the adjoining Block 07/03. However, following a strategic review, the Company disposed of its entire interest in Block 06/94 to KrisEnergy as part of a larger sale of assets.

Indonesia

East Seruway PSC

In October 2008, Serica was awarded the East Seruway PSC offshore north Sumatra, Indonesia, adjacent to the Glagah-Kambuna TAC. 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) 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 has just completed the acquisition of 2,100 line kilometres of 2D seismic data in the PSC to define further the exploration potential prior to drilling an exploration well in the block.

The East Seruway PSC offshore north Sumatra is adjacent to the Kambuna field (Kambuna wellhead platform seen here) and has the potential for similar gas-condensate discoveries with gas supply into the local north Sumatran market.

United Kingdom

East Irish Sea – Conan

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 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, being adjacent to the producing Millom gas field and to the recent Rhyl gas discovery, a discovery at Conan could be developed relatively quickly and cheaply.

Recent technical studies have increased confidence in the Conan prospect and a site survey was acquired in 2009 in preparation for drilling in 2010.

In January 2010 Serica reached agreement with Agora Oil & Gas (UK) AS ("Agora") for the farm-out of the blocks. An exploration well on the Conan prospect, 70% funded by Agora under the term of the farm-out agreement, is planned to be drilled in the second quarter of 2010 to a depth of approximately 5,000 feet. Serica will retain a 65% interest and operatorship of the blocks.

Serica has secured the use of the Ensco 80 jack-up drilling rig to drill the Conan exploration well and drilling is expected to commence in May.

Central North Sea – Oates

In June 2009 Serica was awarded a Production Licence over UK Central North Sea Block 22/19c in the 25th Round of Offshore Licensing. Serica is the licence operator and then held a 100% working interest.

Block 22/19c is located approximately 20 kilometres to the west of Serica's Columbus field and contains two Palaeocene Forties Formation prospects known as Oates and Bowers.

The Oates prospect is a large stratigraphic trap identified on 3D seismic data and is similar in nature to a number of other nearby Forties sand fields such as Huntington, Montrose and Columbus. It is considered low risk and exhibits a well-defined amplitude response on the 3D seismic data similar to that seen in the Columbus field, in which the Company has drilled three successful wells. The prospect lies at a depth of approximately 2,900 metres below sea level and has estimated prospective resources of 180 billion standard cubic feet of gas or 60 million barrels of oil, depending upon whether oil or gas is found.

In January 2010 Serica reached agreement with Premier Oil plc ("Premier") for the farm-out of Block 22/19c. An exploration well on the Oates prospect, funded by Premier, is planned to be drilled in the middle of 2010 to a depth of approximately 10,000 feet. In return for this funding, Premier will earn a 50% interest in Block 22/19c and will assume the role of operator. Serica will retain a 50% interest.

Southern North Sea – Chablis

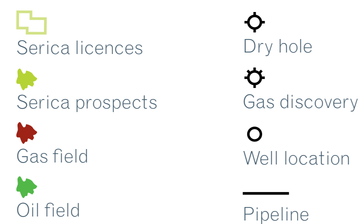
The Chablis Area comprises part-Blocks 48/16a and 48/16b containing the Chablis discovery and Block 48/17d lying immediately east of Block 48/16b.

Serica completed drilling the 48/16b-3z appraisal well to the Chablis discovery in January 2009, to a total depth of 8,136 ft TVDSS. Although the well encountered gas-bearing Rotliegendes Leman 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 uncertain and no reserves can be attributed to the area at this time.

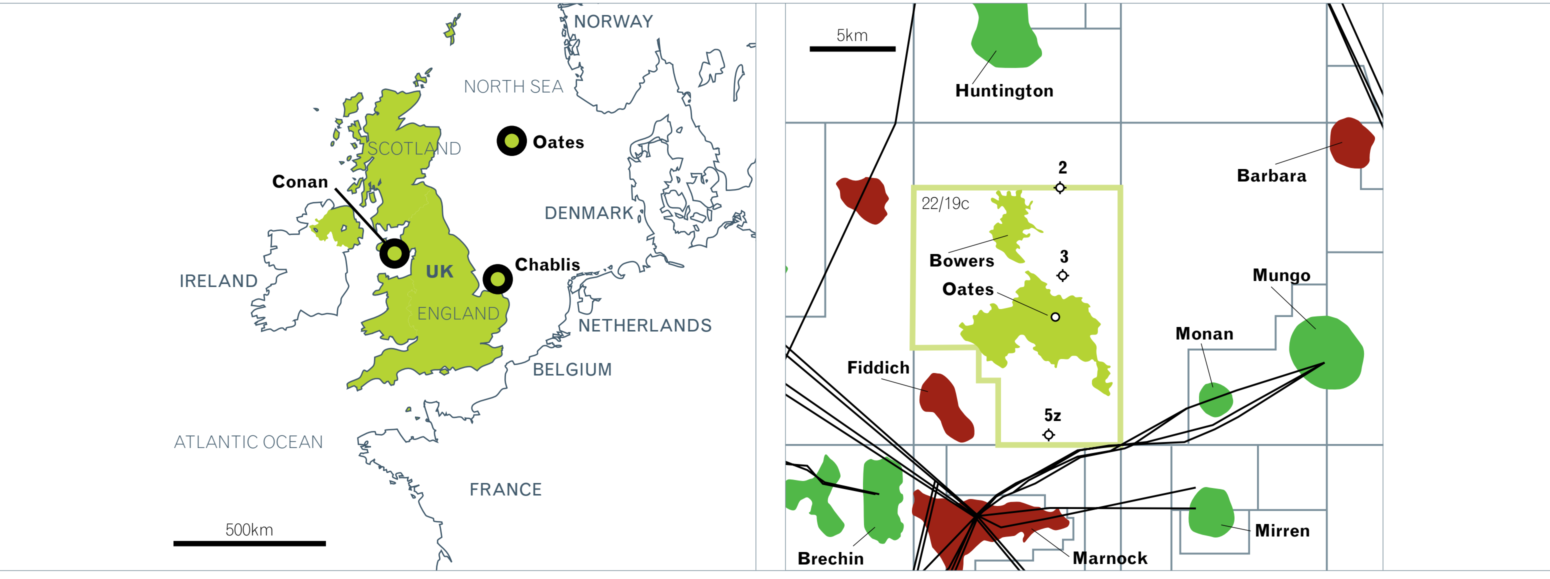
Due to the very high annual licence rental fee for Block 48/16b, in September 2009 the Company relinquished its interests in Blocks 48/16a and 48/16b in favour of Hansa Hydrocarbons, which had farmed into Serica's blocks in 2008. However Serica has retained its 65% operated interest in Block 48/17d, which contains additional gas prospects that would have incremental value if the Chablis field was eventually developed.

Southern North Sea – Oak

Block 54/1b covers an area of 106 square kilometres in the Southern Gas Basin. Due to the high C02 concentration of the discovered gas, rendering the accumulation uneconomic to develop, Serica relinquished its interest in the Block in 2009.

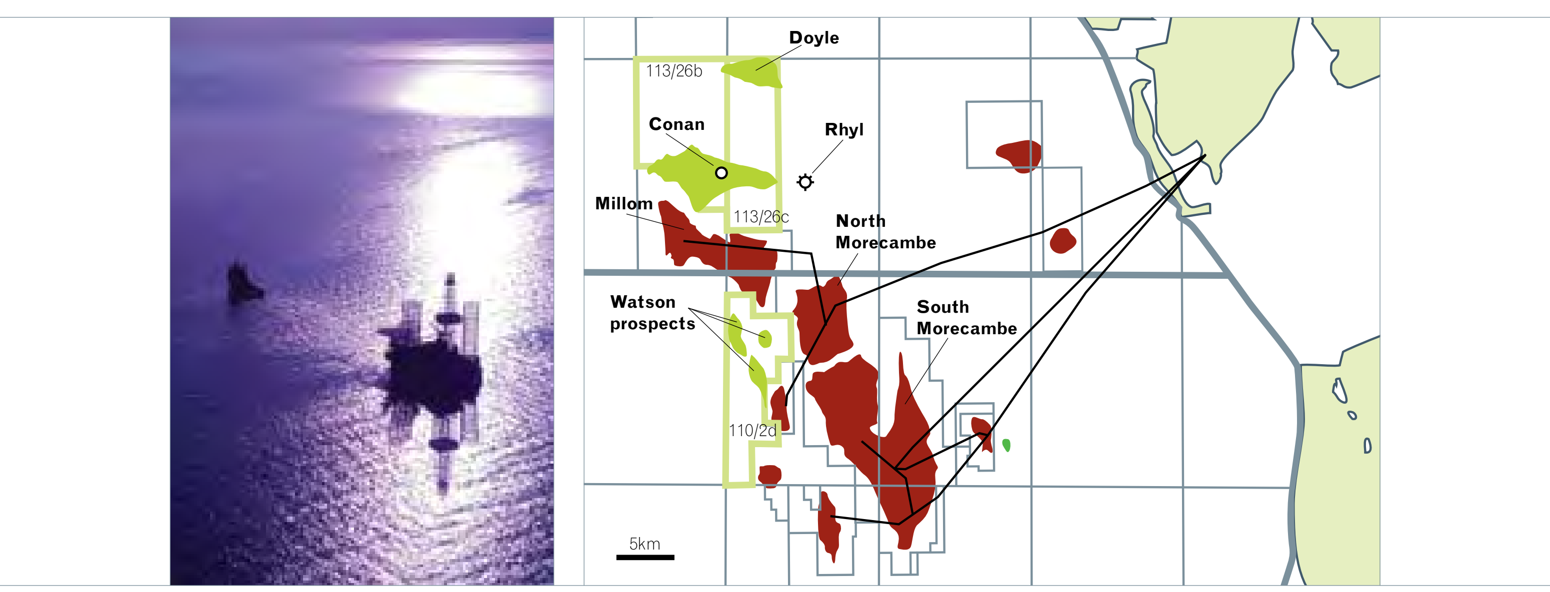


Block map of Oates and Bowers prospects



ENSCO 80 rig in position
over the Conan prospect

Block map of Conan, Doyle and Watson prospects



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 FEL 01/06 (Blocks 27/4, 27/5 (west) and 27/9), 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.

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.

Under the terms of a farm-out agreement RWE Dea AG contributed the bulk of the cost of drilling the first exploration well, 27/4-1 on the Bandon prospect, which was spudded on 11 May with the Ocean Guardian semisubmersible drilling rig. It drilled to a total depth of 6,233 feet through the Jurassic and Permo-Triassic intervals, encountering an oil accumulation. A sidetrack was drilled to acquire additional data and samples and drilling operations were completed in June 2009.

The oil accumulation discovered is unlikely to be commercial in isolation and the discovery of oil rather than gas was unexpected. Consequently Serica is re-evaluating the area, using the new data from the well, to determine the potential of oil prospects now being identified in licence FEL 1/06 and also to confirm the potential of the remaining gas prospects.

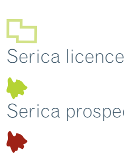
Rockall Basin

In July 2009 the Company announced that it had been awarded Frontier Exploration Licence FEL 1/09 covering Blocks 5/17, 5/18, 5/22, 5/23, 5/27 and 5/28 in the northeastern part of the Rockall Basin off the west coast of Ireland. The six blocks cover a total area of 993 square kilometres. Serica is the licence operator and holds a 100% working interest.

The Rockall Basin has an areal extent of over 100,000 square kilometers in which only three exploration wells have been drilled to date and the basin is therefore regarded as very underexplored. Of these exploration wells the 12/2-1 Dooish gas-condensate discovery, drilled by Enterprise Oil in 2002 approximately nine kilometres to the south of the Licence, encountered a 214 metre hydrocarbon column.

In August, Serica acquired several new 2D long-offset seismic lines across the Muckish structure, a large exploration prospect already identified from existing 3D seismic data, in order to evaluate its potential to contain hydrocarbons. Muckish covers an area of approximately 30 square kilometers in a water depth of 1,450 metres.

Ocean Guardian rig at Slyne Basin licences



Serica licences

Serica prospects

Gas field

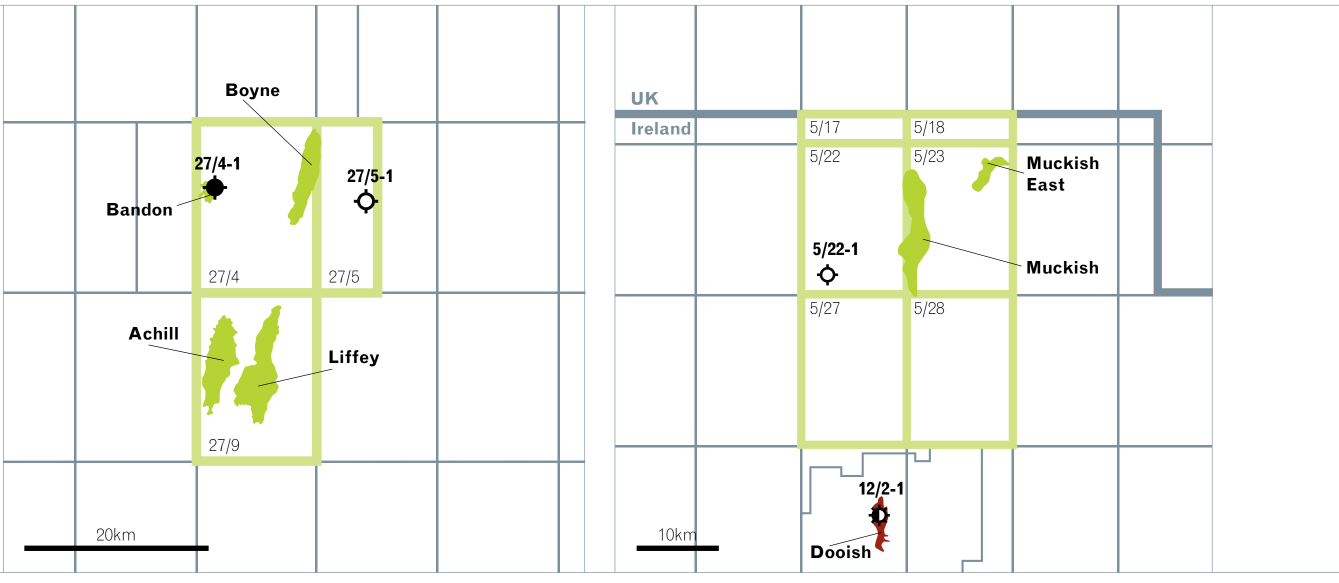
Gas/condensate discovery

Dry hole

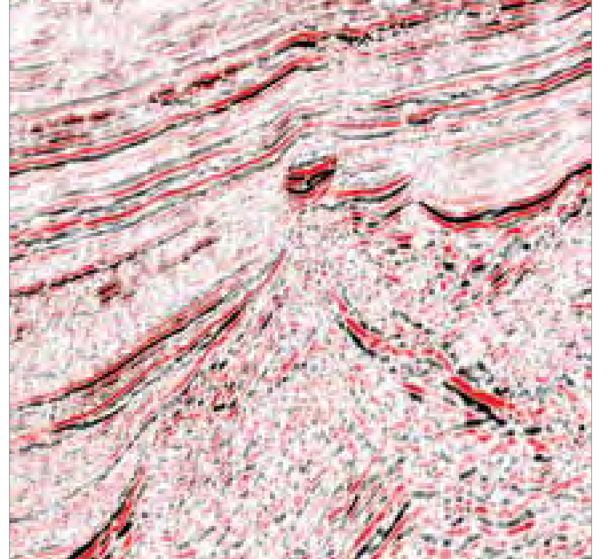
Oil discovery

Block map of Serica licences in Slyne Basin

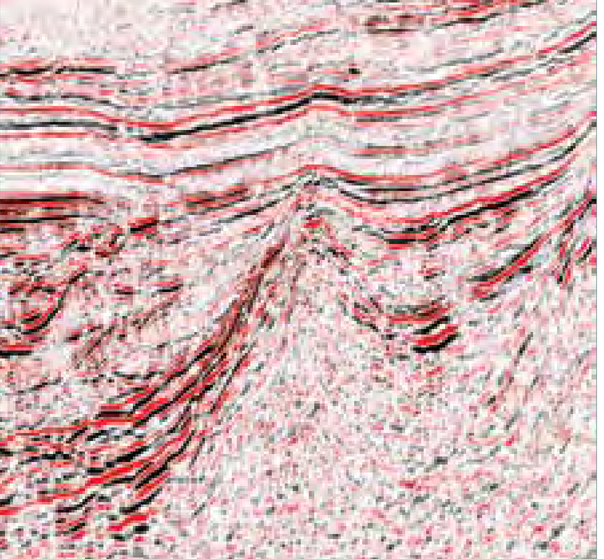
Block map of Serica licences in Rockall Basin



Dooish discovery – seismic section



Muckish prospect – seismic section

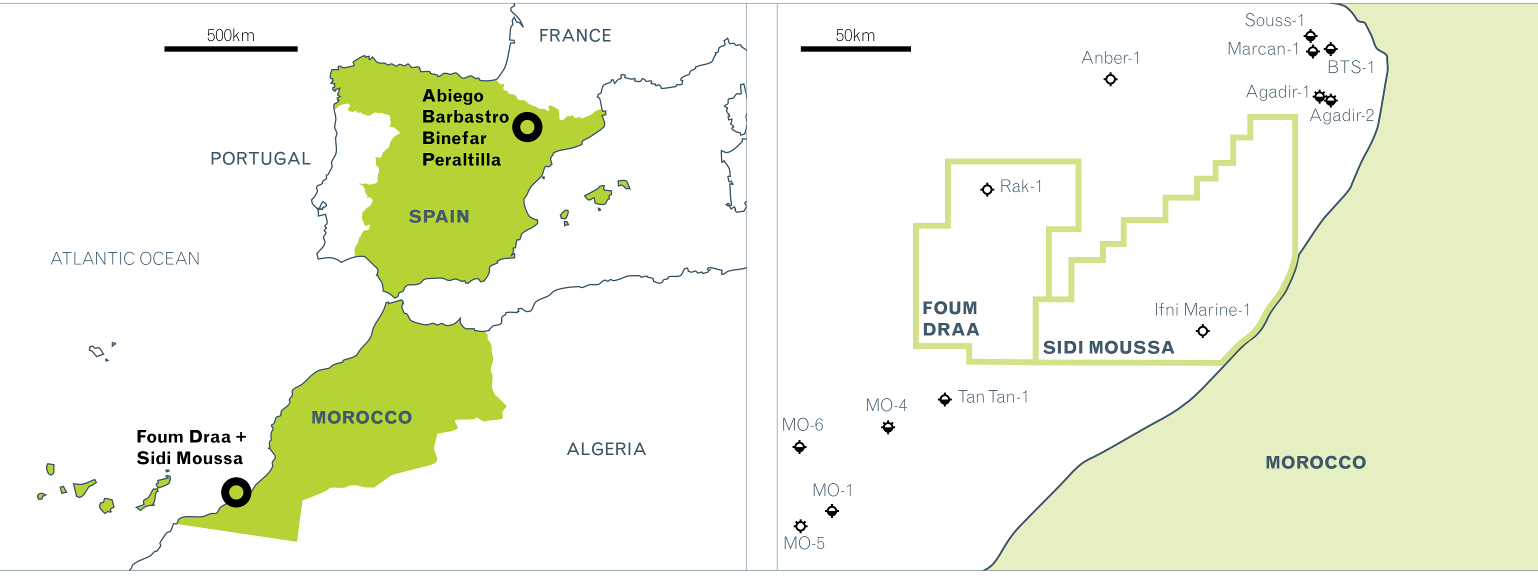


The Dooish discovery encountered a 216m gas condensate column in predominantly Jurassic age sandstones. In 2009 Sercia sponsored the acquisition of long-offset 2D seismic data over Muckish and Dooish. This new 2D data resulted in an improvement in seismic data quality from the 3D and a comparison of the two structures is illustrated above.

The Muckish prospect is one of the largest, undrilled Mesozoic fault blocks West of Ireland. It lies 12km to the north of the Shell operated Dooish discovery (315 bcfe recoverable) within the deepwater Rockall Basin. The Muckish prospect has the potential for significant reserves in excess of 1Tcf.

Serica licences
Dry hole
Oil and gas show
Oil show
Gas show

Block map of Serica licences in Morocco



Morocco

In August 2009 the Company was awarded a 25% interest in two Petroleum Agreements for the contiguous areas of Sidi Moussa and Foum Draa, offshore Morocco. The blocks together cover a total area of approximately 12,700 square kilometres in the sparsely explored Agadir Basin, about 100 kilometres south west of the city of Agadir.

Sidi Moussa and Foum Draa are covered by over 5,200 square kilometres of modern 3D seismic data and over 2,000 kilometres of 2D seismic data. A drill or drop decision is required to be made at the end of the initial phases of the Agreements after 18 months and 30 months respectively.

The Agadir Basin is geologically analogous to the oil producing salt basins of West Africa. Based on the extensive grid of existing seismic data, over 40 undrilled prospects and leads were identified in Sidi Moussa and Foum Draa by previous operators. The areas extend from the Moroccan coastline into water depths reaching a maximum of 2,000 metres. Technical studies to reprocess the extensive 3D seismic database are underway.

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.

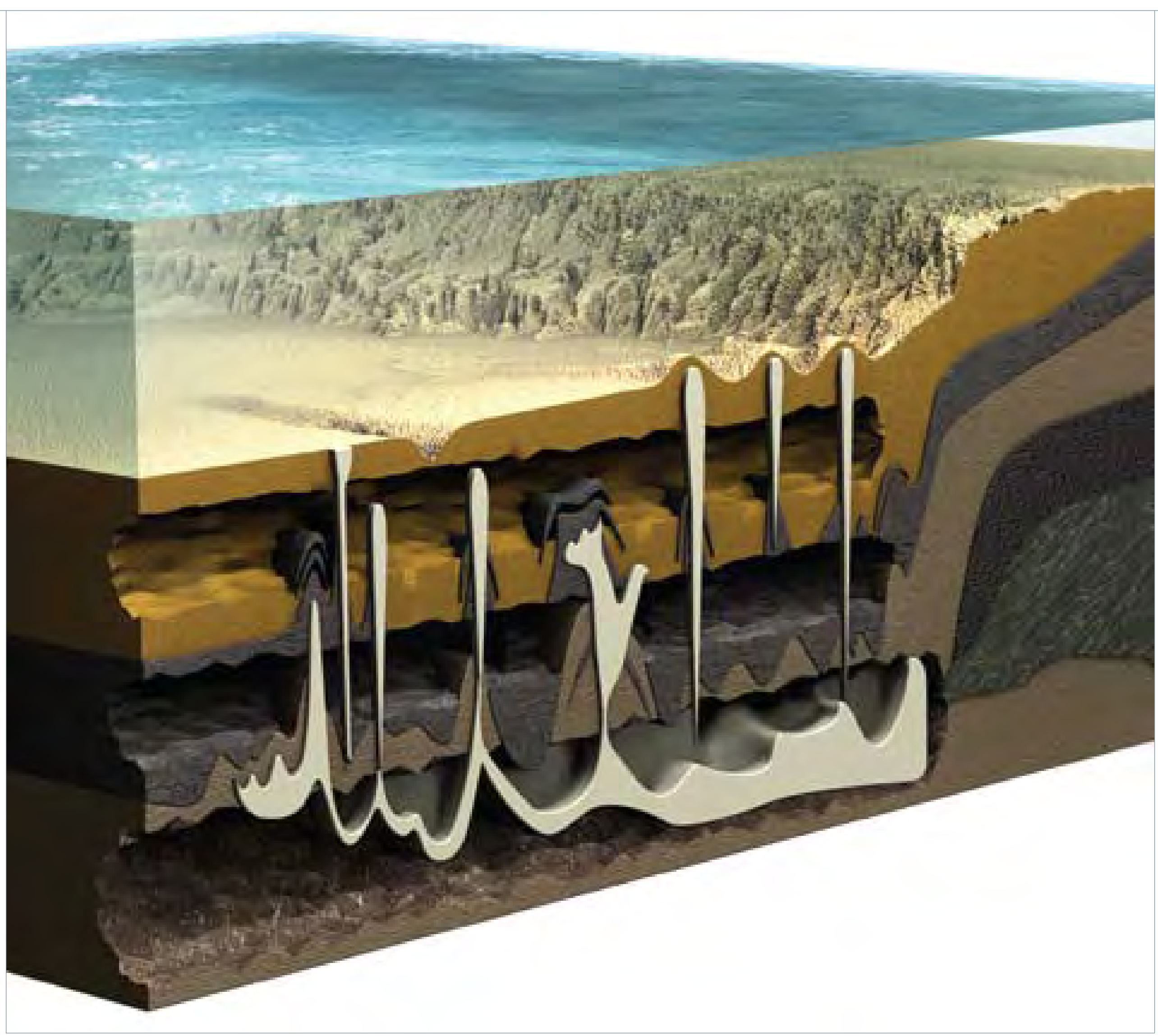
Several gas prospects have been identified by Serica however the Company recently obtained a suspension of the Permits until November 2010 and Serica is currently seeking a farm-in partner prior to making a drill or drop decision.

Forward Programme

Serica's main priority for 2009 was to achieve first production from the Kambuna field. With gas and condensate sales having commenced from the Kambuna field, the Company's attention is now on reaching the present annual contract rate of 40 mmscfd and then to achieve a higher contract rate once supporting field data has been obtained.

Over the next twelve months Serica is planning an exploration programme of wells that could be of great significance to the Company, including the Conan prospect in the East Irish Sea, the Oates prospect in UK Block 22/19c in the Central North Sea west of the Columbus field and three wells in the Kutai PSC in Indonesia. For the Columbus field, design work and submission of a revised Field Development Plan to the UK government this year should result in a project sanction decision in 4Q 2010, enabling first gas in early 2013.

3-D render of Foum Draa and Sidi Moussa blocks showing 'salt diapirs' below the sea bed



Cutaway illustration of a schematic cross-section through Serica's Moroccan acreage from shallow to deepwater. The area is characterised by the presence of a number of salt diapirs which have pushed up through the overlying sand and shale rock layers, potentially creating a number of structural and stratigraphic traps for hydrocarbons. This type of petroleum geology is observed in many prolific producing basins including several in the Atlantic Margin.

HAVING RECENTLY MONETISED PART OF ITS ASSETS IN SOUTH EAST ASIA, SERICA IS IN A STRONG POSITION TO FUND ITS FORWARD EXPLORATION PROGRAMME AND TAKE ADVANTAGE OF OTHER OPPORTUNITIES FOR INVESTMENT

FINANCIAL REVIEW

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 profit of US$5.8 million for 2009 compared to a loss of US$1.0 million for 2008.

	2009 US$000	2008 US$000
Sales revenue	7,643	–
Cost of sales	(6,376)	–
Gross profit	**1,267**	**–**
Expenses:		
Administrative expenses	(6,639)	(8,628)
Foreign exchange gain/(loss)	228	(370)
Pre-licence costs	(901)	(1,150)
Asset write offs	(8,590)	(24,034)
Share-based payments	(1,687)	(1,781)
Depreciation	(118)	(146)
Operating loss before net finance revenue and tax	(16,440)	(36,109)
Profit on disposal	26,864	36,620
Finance revenue	641	1,823
Finance costs	(3,754)	(3,138)
Profit/(loss) before taxation	**7,311**	**(804)**
Taxation (charge)/credit for the year	(1,531)	228
Profit/(loss) for the year from continuing operations	5,780	(576)
Discontinued operations		
Loss for the year from discontinued operations	–	(395)
Profit/(loss) for the year	**5,780**	**(971)**
Earnings/(loss) per ordinary share – EPS		
Basic and diluted EPS on profit/(loss) for the year (US$)	0.03	(0.006)
Basic and diluted EPS on profit/(loss) for the year – continuing operations (US$)	0.03	(0.003)

The Company generated its first sales from the Kambuna field in Indonesia during Q3 2009 following the start up of production on 11 August. The gas production was sold at prices averaging US$5.48 per Mscf and generated US$4.0 million of revenue. Condensate production was sold referenced to the Indonesia Attaka official monthly crude oil prices in the year and earned US$3.6 million of revenue.

Cost of sales for 2009 were driven by production from the Kambuna field and totalled US$6.4 million. The charge comprised operating costs of US$4.5 million (including applicable Early Production Facility costs) plus depletion and amortisation of US$2.2 million, partially offset by a condensate stock adjustments credit of US$0.3 million.

Administrative expenses of US$6.6 million for 2009 fell from US$8.6 million for 2008 as the Company continued to manage carefully its financial resources. The decrease from 2008 included a reduction in the US$ equivalent of those general administrative costs incurred in £ sterling. Higher levels of cost were incurred on various transactions and other corporate activity in 2008.

The impact of foreign exchange is not significant in 2009 or 2008.

Pre-licence costs include direct cost and allocated general administrative costs incurred on oil and gas activities prior to the award of licences, concessions or exploration rights. During 2009 the Company was awarded two new licences in Morocco and Block 22/19c in the UK North Sea.

Asset write offs in 2009 of US$8.6 million primarily relate to the costs incurred in Q1 2009 (US$7.1 million) on the completion of the Chablis appraisal well, which spudded in 2008. Other write offs include the costs of relinquished licences and sundry items. The asset write off charge of US$24.0 million during 2008 was allocated to the Chablis (US$11.4 million), Oak (US$6.1 million), Spain (US$6.1 million) and Biliton (US$0.4 million) assets.

Share-based payment costs of US$1.7 million reflect share options granted and compare with US$1.8 million for 2008. Whilst further share options were granted in January 2009, the incremental charge generated from those options has been offset by the decline in charges for options granted in prior years.

Negligible depreciation charges in all periods represent office equipment and fixtures and fittings. The depletion and amortisation charge for Kambuna field development costs is recorded within 'Cost of Sales'.

In December 2009 the Company disposed of a package of assets in South East Asia (comprising a 25% interest in the Kambuna TAC, a 24.6% interest in the Kutai PSC and the Company's entire 33.3% interest in the Block 06/94 PSC, Vietnam) to KrisEnergy Limited. The disposal generated a profit of US$26.9 million after deducting the relevant proportion of booked asset costs for the Kambuna, Vietnam and Kutai interests, and transaction fees. Final completion of the Kutai element of the transaction is subject to Indonesian government approval.

Finance revenue for 2009, comprising interest income of US$0.6 million for 2009, compares with US$1.8 million for 2008. The decrease from last year is due to both a reduction in average cash balances held through the respective years and reduced average interest rate yields earned in 2009.

Finance costs consist of interest payable, issue costs spread over the term of the bank loan facility, and other fees. Finance costs directly related to the Kambuna development were capitalised until the field was ready for commercial production during Q3 2009.

The taxation charge of US$1.5 million reflects current tax liabilities of US$0.4 million arising from income in Indonesia and also includes a deferred tax charge of US$1.1 million arising from Indonesian operations. Expenditures in prior and current periods have reduced any potential current income tax expense arising for 2008 and 1H 2009 to US$nil.

The results from discontinued operations arise following the disposal of the Company's Norwegian activities which completed in Q4 2008.

The net earnings per share of US$0.03 for 2009 compare to a net loss per share of US$0.006 for 2008.

Summary of Quarterly Results

Quarter ended:	**31 Mar US$000**	**30 Jun US$000**	**30 Sep US$000**	**31 Dec US$000**
2009				
Sales revenue	–	–	4,167	3,476
(Loss)/profit for the quarter	(9,938)	(2,504)	(926)	19,148
Basic earnings per share US$	(0.06)	(0.01)	(0.01)	0.11
Diluted earnings per share US$	(0.06)	(0.01)	(0.01)	0.11
2008				
Sales revenue	–	–	–	–
(Loss)/profit for the quarter	(3,326)	(4,275)	33,516	(26,886)
Basic earnings per share US$	(0.02)	(0.02)	0.19	(0.16)
Diluted earnings per share US$	(0.02)	(0.02)	0.19	(0.16)

The fourth quarter 2009 profit includes a profit of US$26.9 million generated on the disposal of a 25% interest in the Kambuna field, Indonesia and certain E&E asset interests in South East Asia.

The third quarter 2009 result includes first revenue streams from the Kambuna field.

The first quarter 2009 loss includes asset write offs of US$7.1 million on the Chablis asset.

The fourth quarter 2008 loss includes asset write offs of US$23.6 million attributed 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.

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 2009 US$000	31 December 2008 US$000
Current assets:		
Inventories	2,855	4,618
Trade and other receivables	106,381	7,069
Financial assets	1,500	–
Cash and cash equivalents	18,412	56,822
Total Current assets	**129,148**	**68,509**
Less Current liabilities:		
Trade and other payables	(9,622)	(14,599)
Financial liabilities	(46,447)	(32,105)
Net Current assets	**73,079**	**21,805**

At 31 December 2009, the Company had net current assets of US$73.1 million which comprised current assets of US$129.1 million less current liabilities of US$56.0 million, giving a significant overall increase in working capital of US$51.3 million in the year.

Inventories decreased from US$4.6 million to US$2.9 million over the year as materials were utilised and the Company also reduced its working interest in the joint venture balances held.

Trade and other receivables at 31 December 2009 totalled US$106.4 million and included US$99.7 million of outstanding consideration (including effective date adjustments) from the South East Asia asset disposals and US$2.4 million trade debtors from gas and condensate sales. Other less significant items included recoverable amounts from partners in Joint Venture operations in the UK and Indonesia, prepayments and sundry UK and Indonesian working capital balances. The amounts due from KrisEnergy Limited were received on completion of the transaction in January 2010 (US$5.0 million of the consideration was received in December 2009) and all trade debtors outstanding at Q4 2009 were received in Q1 2010. The significant increase from the 2008 year end balance of US$7.1 million was caused by the receivable arising from the disposal of assets to KrisEnergy Limited agreed in December 2009.

Financial assets represent US$1.5 million of restricted cash deposits, reclassified as a current asset during Q2 2009.

Cash and cash equivalents reduced from US$56.8 million to US$18.4 million in the year. The Company received US$40.0 million in further gross drawings on its loan facility however these cash inflows were offset by the significant capital expenditure of US$41.6 million on the Kambuna development and the completion of 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$9.6 million at 31 December 2009 chiefly include significant trade creditors and accruals from the Kambuna development and UK exploration programme. Other smaller items comprise sundry creditors and accruals for administrative expenses and other corporate costs. The decrease from December 2008 is due to a reduction in Kambuna development expenditure as the project approaches completion.

Financial liabilities comprise drawings under the senior debt facility and are disclosed net of the unamortised portion of allocated issue costs. The balance classified as short term as at 31 December 2009 represents amounts repaid in January 2010 following the receipt of asset disposal proceeds noted above.

Long-Term Assets and Liabilities

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

	31 December 2009 US$000	31 December 2008 US$000
Exploration and evaluation assets	66,030	69,711
Property, plant and equipment	53,864	68,526
Goodwill	148	295
Financial assets	–	1,500
Long-term other receivables	5,639	3,945
Financial liabilities	(24,371)	–
Deferred income tax liabilities	(1,435)	(295)

During 2009, total investments in petroleum and natural gas properties represented by exploration and evaluation assets ("E&E assets") decreased from US$69.7 million to US$66.0 million. These amounts exclude the Kambuna development and production costs which are classified as property, plant and equipment.

The net US$3.7 million decrease consists of US$22.9 million of additions, less US$7.6 million of asset write offs and US$19.0 million of disposals.

The US$22.9 million of additions were incurred on the following assets:

In South East Asia, US$1.4 million was incurred in Vietnam on a seismic survey and preparations for 2010 drilling, US$4.7 million was incurred on seismic, exploration work and G&A on the Kutai concession in Indonesia and US$0.7 million on East Seruway. The entire Vietnam E&E asset interests were disposed of in December 2009 together with a 24.6% interest in the Kutai PSC.

In the UK & Western Europe; US$7.1 million was spent on the completion of Chablis appraisal drilling in Q1 2009, US$3.0 million of expenditure was incurred in Ireland on the Slyne basin and Rockall basin interests, US$3.3 million on seismic data and other exploration work in Block 22/19c in the UK North Sea, and US$2.3 million on other exploration work, G&A and the Columbus FDP.

Property, plant and equipment comprise the net book amount of the capital expenditure on the Company's interest in the Kambuna development. During 2009, the Company's investment decreased from US$68.5 million to US$53.9 million. This US$14.6 million decrease comprises US$41.6 million of capex additions in the year less

depletion charges of US$2.2 million arising from the production of gas and condensate, and the deduction in December 2009 of US$53.9 million representing the proportionate share of Kambuna book costs disposed to KrisEnergy. The property, plant and equipment also includes immaterial balances of US$0.1 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$0.1 million following the partial disposal of the Kambuna interest.

Financial assets of US$1.5 million of restricted cash deposits were classified as a current asset in Q2 2009.

Long-term other receivables of US$5.6 million are represented by value added tax ("VAT") on Indonesian capital spend which will be recovered from future production.

Financial liabilities represented by drawings under the senior secured debt facility are disclosed net of the unamortised portion of allocated issue costs.

The deferred income tax liability of US$1.4 million arises in respect of the Company's retained Kambuna asset interest in Indonesia.

Shareholders' Equity

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

	31 December 2009 US$000	31 December 2008 US$000
Total share capital	207,633	207,633
Other reserves	17,197	15,510
Accumulated deficit	(51,876)	(57,656)

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

Other reserves mainly include amounts credited in respect of cumulative share-based payment charges. The increase in other reserves from US$15.5 million to US$17.2 million reflects a credit to equity in respect of share-based payment charges in 2009.

Asset values and Impairment

At 31 December 2009 Serica's market capitalisation stood at US$160 million (£100 million), based upon a share price of £0.57, which was exceeded by the net asset value at that date of US$174 million. Management conducted a thorough review of the carrying value of its assets and determined that no further write-downs were required beyond those already disclosed above. By 12 March 2010 the Company's market capitalisation had increased to US$193 million exceeding the net asset value at 31 December 2009.

Capital Resources

Available financing 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 achieved in August 2009, and the Columbus gas field in the UK North Sea, for which development plans have been submitted. In Q3 2009 the Company achieved its first significant revenues from the Kambuna field, complementing its exploration activities with producing interests.

Typically exploration activities are equity financed whilst field development costs are principally debt financed. 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 receipt of first Kambuna revenues in Q3 2009 reweights the balance from investment to income generation.

In November 2009 the Company replaced its US$100 million debt facility with a new three-year facility for a similar amount. The new facility, which has been arranged with J.P.Morgan plc, Bank of Scotland plc and Natixis as Mandated Lead Arrangers, was principally to refinance the Company's outstanding borrowings on the Kambuna field. It will also be available to finance the appraisal and development of the Columbus field and for general corporate purposes. The ability to draw 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.

At 31 December 2009, the Company held cash and cash equivalents of US$18.4 million, restricted cash of US$1.5 million. In January 2010 the Company received the proceeds from the disposal of assets to KrisEnergy and repaid US$47.6 million of its debt. As of 12 March 2010, the Company's debt facility was US$25 million drawn out of a total facility of US$100 million, leaving a net cash position of approximately US$40 million.

Overall, the start of revenues from Kambuna, the subsequent disposal of 25% out of its 50% Kambuna interest and the control that the Company can exert over the timing and cost of its exploration programmes both through operatorship and through farm-outs leave it well placed to manage its commitments. Serica intends to continue taking a prudent approach to financial management so as to retain the strength that it has built to-date.

Lease commitments

At 31 December 2009, Serica had 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 2010	148
31 December 2011	–

Capital expenditure commitments, obligations and plans

The Company's most significant planned capital expenditure commitments for 2010 are those required to fund the completion of the permanent production facilities for the Kambuna field. As at 31 December 2009, the Company's share of expected outstanding capital costs in respect of its 25% retained interest on the project totalled approximately US$6.7 million. These expected costs include amounts contracted for but not provided in 2009.

In addition, 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 2010 US$11,700,000
Year ending 31 December 2011 US$1,235,000

These obligations reflect the Company's share of the defined work programmes and were not formally contracted at 31 December 2009. 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.

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 2009 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, or depletion of producing assets necessarily involve certain judgments with regard to whether the asset will ultimately prove to be recoverable. Key sources of estimation uncertainty that impact the Company relate to assessment of commercial reserves and 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. Impairment considerations necessarily involve certain judgements as to whether E&E assets will lead to commercial discoveries and whether future field revenues will be sufficient to cover capitalised costs. 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. Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment charge is required.

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 2010/11 this is managed in the short-term through selecting treasury deposit periods of one to three months. Treasury counterparty 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 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 2009, the following director and employee share options were outstanding:

	Expiry Date (i)	Number	Exercise cost Cdn$
Share options	December 2014	275,000	275,000
	January 2015	600,000	600,000
	June 2015	1,100,000	1,980,000
			Exercise cost £
	November 2010 (ii)	437,000	423,890
	August 2012	1,200,000	1,182,000
	October 2013	750,000	300,000
	January 2014	708,000	226,560
	November 2015	124,000	120,280
	January 2016	1,275,000	1,319,625
	May 2016	180,000	172,800
	June 2016	270,000	259,200
	November 2016	120,000	134,400
	January 2017	745,000	759,900
	May 2017	405,000	421,200
	March 2018	1,608,000	1,206,000
	March 2018	850,000	697,000

(i) At an Extraordinary General Meeting held on 8 December 2009, shareholders approved the extension of the exercise period of share options held under the Company's share option plans with an exercise price greater than 49 pence or CDN$0.76 for a further five years other than the share options held by non-executive directors awarded in 2007 for which shareholder approval was not requested. The extension of exercise periods has been implemented for all relevant options with the exception of those options held under the Serica Energy PLC Enterprise Management Incentive Plan (the EMI Plan) which options shall only be extended in the event that there is no material disadvantage to the option holders in so doing.

(ii) Options held under the EMI Plan.

In January 2010, 2,175,000 share options were granted to executive directors with an exercise cost of £0.68 and an expiry date of 10 January 2020. The exercise of the options is subject to certain performance criteria as set out in the Directors' Report. Also in January 2010, 2,028,500 share options were granted to certain employees other than directors with an exercise cost of £0.68 and an expiry date of 10 January 2020. Exercise of certain of the options granted to executive directors and employees is conditional on shares purchased in the Company being retained for a period of one year from the date of purchase in January 2010. The options granted in January 2010 cannot be exercised until three years from the date of grant.

Outstanding Share Capital

As at 16 March 2010, 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 production interruptions, well or reservoir performance, spillage and pollution, 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. During the year ended 31 December 2009 the Company generated a profit of US$5.8 million

from continuing operations and earned its first revenues from the Kambuna field following the commencement of production in August. At 31 December 2009 the Company had US$52 million of debt net of available cash and, following the post year end receipt of cash from the disposal of certain assets to KrisEnergy, by 12 March 2010 the Company had US$40 million of net cash.

The Company intends to utilise its existing cash balances and future operating cash inflows, 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 MD&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

Christopher Hearne
Finance Director

16 March 2010

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 2009.

Principal Activities

The principal activity of the Company and its subsidiary undertakings (the "Group") is to identify, acquire, explore and subsequently exploit oil and gas reserves primarily in South East 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 profit for the year was US$5,780,000 (2008: loss US$971,000).

The Directors do not recommend the payment of a dividend (2008: 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

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 2009:

Antony Craven Walker
Paul Ellis
Christopher Hearne
Peter Sadler
Neil Pike
Ian Vann
Steven Theede
Jonathan Cartwright

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	5,704,473
Paul Ellis [(2)]	Ordinary	850,000	850,000
Christopher Hearne [(3)]	Ordinary	710,551	710,551
Peter Sadler [(4)]	Ordinary	–	–
Neil Pike [(5)]	Ordinary	405,000	405,000
Ian Vann	Ordinary	89,262	89,262
Steven Theede	Ordinary	749,485	749,485
Jonathan Cartwright	Ordinary	20,000	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 (pension fund).

(2) 100,000 ordinary shares are held by Rowanmoor Trustees (pension fund). In January 2010 Paul Ellis acquired a further 20,915 ordinary shares in the Company increasing his interest to 870,915 ordinary shares.

(3) In January 2010 Christopher Hearne acquired a further 18,824 ordinary shares in the Company increasing his interest to 729,375 ordinary shares.

(4) In January 2010 Peter Sadler acquired 20,915 ordinary shares in the Company.

(5) 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:

	1/1/09	Granted	Expired	31/12/09	Exercise Price Cdn$	Date of grant	Expiry date
P Ellis	1,000,000	–	–	1,000,000	1.80	15/06/05	14/06/15
C Hearne	600,000	–	–	600,000	1.00	17/01/05	16/01/15
	100,000	–	–	100,000	1.80	15/06/05	14/06/15

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 in line with the practice for companies listed in Toronto which applied at the date 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:

	1/1/09	Granted	Exercised	31/12/09	Exercise Price £	Date of grant	Expiry date
P Ellis	103,000	–	–	103,000	0.97	23/11/05	22/11/10
	7,000	–	–	7,000	0.97	23/11/05	22/11/15
	500,000	–	–	500,000	0.82	31/03/08	30/03/18
C Hearne	103,000	–	–	103,000	0.97	23/11/05	22/11/10
	7,000	–	–	7,000	0.97	23/11/05	22/11/15
	350,000	–	–	350,000	0.82	31/03/08	30/03/18
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 in line with the practice for companies listed in Toronto which applied at the date of grant.

At a General Meeting of Shareholders held on 8 December 2009 the maximum period of exercise for options awarded under the Serica 2005 Option Plan was extended from 5 years to 10 years to take advantage of changes introduced in the Toronto Stock Exchange (Ventures) market since the Serica 2005 Option Plan was originally approved by shareholders. In parallel with this change the minimum vesting period was changed to three years to meet guidelines set down by the Association of British Insurers with respect to companies listed in the UK. These changes affect options awarded after 8 December 2009.

At the Extraordinary General Meeting shareholders also approved the extension of the exercise period of existing share options held under the Company's share option plans with an exercise price greater than 49 pence or CDN$0.76 for a further five years other than share options held by non-executive directors awarded in 2007 for which shareholder approval was not requested. The extension of the exercise periods has been implemented for all those options in the above two tables meeting those price criteria with the exception of those options held under the Serica Energy PLC Enterprise Management Incentive Plan (the EMI Plan). Extension of the exercise period for options held under the EMI Plan, which carry certain tax advantages to the option holder, will only be made if the option holders do not suffer any material tax disadvantages as a result.

Under the Serica 2005 Option Plan, when awarding options to directors, the Remuneration Committee is required to set Performance Conditions, in addition to the vesting schedule above, before vesting can take place. For those options held pursuant to the terms of the Serica 2005 Option Plan where the exercise period has been extended from 5 years to 10 years following shareholder approval, the Remuneration Committee has extended the previously existing Performance Conditions for executive directors to cover the additional 5 year period. Neither the Performance Conditions nor the exercise period for options held by non-executive directors awarded in 2007 have been changed.

In summary the Performance Conditions relating to options held pursuant to the terms of the Serica 2005 Option Plan are as follows:

In respect of the options granted in November 2005, directors may only exercise those options on condition that the Serica share price on a 30 day moving average basis prior to 23 November 2015 has reached at least 200p.

In respect of the options granted in August 2007, directors may only exercise those options on condition that 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. These options have an unchanged 5 year exercise period.

In respect of the options granted in March 2008, directors may only exercise those options on condition that 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 2018 has reached at least 200p.

In respect of the options granted in October 2008, the director may only exercise those options on condition that certain operational targets are met. These options also have an unchanged 5 year exercise period.

In January 2010 and following the General Meeting of 8 December 2009, 750,000 share options were granted to Paul Ellis, 675,000 share options were granted to Christopher Hearne and 750,000 share options were granted to Peter Sadler with an exercise cost of £0.68 and an expiry date of 10 January 2020. The vesting of the options is subject to Serica share price Performance Conditions measured against a selected peer group consisting of Antrim Energy Inc., Aurelian Oil & Gas plc, Bowleven plc, Falkland Oil & Gas Limited, Faroe Petroleum plc, Gulfsands Petroleum plc, Ithaca Energy Inc, Northern Petroleum plc, Petroceltic International plc, Providence Resources plc, Regal Petroleum plc and Valiant Petroleum plc. The Performance Conditions are as follows:

- *40% of options to vest in the event that the Company outperforms the 25th percentile of peer group performance over any 1 year period*

- *80% of options to vest in the event that the Company outperforms the 50th percentile of peer group performance over any 1 year period*

- *100% of options to vest in the event that the Company outperforms the 75th percentile of peer group performance over any 1 year period*

The peer group of comparator companies is subject to change by the Remuneration Committee should the Remuneration Committee feel that the group no longer comprises a meaningful peer group comparator as the result, for example, of a significant change in the Company or one or more of the peer group companies ceasing to be quoted on a recognised exchange.

In addition to the above Performance Conditions, exercise of certain of the options is conditional on shares purchased in the Company by the relevant directors being retained for a period of one year from the date of purchase in January 2010.

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 12 March 2010:

	No of shares	Percentage holding
The Canadian Depository for Securities Ltd ("CDS")	37,432,444	21.2%
Caledonia Investments	25,501,736	14.4%
Fidelity International	21,123,549	12.0%
AXA Financial	10,226,501	5.8%
BlackRock Inc	9,198,711	5.2%
The Depository Trust Company ("DTC")	8,509,497	4.8%
Cenkos	8,468,654	4.8%
Sprott Asset Management LP	8,143,850	4.6%
Mr A Craven Walker	5,704,473	3.2%

CDS in Canada and DTC (using the nominee Cede & Co) in the USA are registered holders of the above ordinary shares shown against their names and hold such shares as depositary and nominee for numerous clients who retain the beneficial interests in the ordinary shares held. 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 who hold such ordinary shares through the above depositaries. 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 2009, the Company had an average of 32 days' purchases owed to trade creditors (2008 – 23 days).

Auditor

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

Disclosure of information to auditors

The directors who were members of the Board at the time of approving the Directors' Report are listed above. So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that he is obliged to take as a director in order to made himself aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the Board

Christopher Hearne
Director
16 March 2010

Serica Energy plc

CORPORATE GOVERNANCE STATEMENT

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") but is not compulsory for companies whose shares are traded on the AIM market. Nevertheless, the Board endeavours to follow the principles set out in the Combined Code wherever it considers it to be appropriate. The specific instances where it does not fully comply are addressed under the heading "The Board and its Committees" below.

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 the Corporate Governance Guidelines as well as those of the Combined Code.

Further information regarding the Company's corporate governance practices can be found in the Company's management information circular dated 22 May 2009, 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 a recently retired 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 limited number of share options granted 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 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 Reserves 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 and the Corporate Governance Guidelines where they apply to the Company, for compliance with 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 met twice during 2009 and 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 met five times in 2009 and proposes to meet five times during the next financial year. The committee is chaired by Neil Pike and its other members are Steven Theede and Jonathan Cartwright.

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, 2008, a copy of which is available on SEDAR at www.sedar.com.

Reserves Committee

A Reserves Committee has been established as a sub-committee of the Audit Committee. The committee's purpose is to review the reports of the independent reserves auditors pursuant to Canadian regulations which require that the Board discuss the reserves reports with the independent reserves auditors or delegate authority to a reserves committee comprised of at least two non-executive directors. The committee is chaired by Steven Theede and its other members are Peter Sadler and Ian Vann. The committee meets at least once a year prior to publication of the annual results.

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.

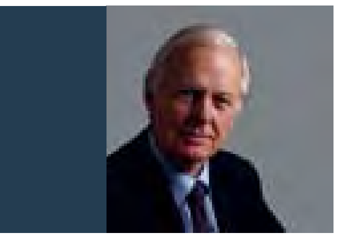
The Board is responsible for implementing the recommendations and agreeing to the remuneration packages of individual Directors. The Remuneration and Compensation Committee met three times in 2009 and proposes to meet three times during the next financial year.

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.

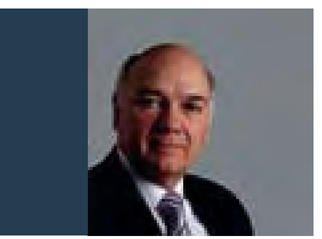
Health, Safety and Environmental Committee

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 met three times in 2009 and 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). He was appointed Chairman of Serica in 2004.

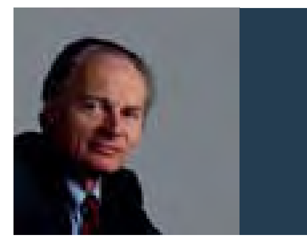


PAUL ELLIS Chief Executive Officer Paul Ellis has 40 years of experience within the areas of exploration, production, development and management of international oil and gas ventures. He joined Serica from Emerald Energy where, as Chief Operating Officer, he was instrumental in the successful expansion 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. He was appointed to the Board as Chief Executive of Serica in 2005.

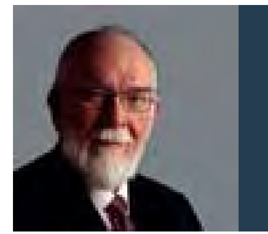
CHRISTOPHER HEARNE Finance Director Chris Hearne joined Serica from Intrepid Energy, a leading independent exploration and production company in the North Sea, where he was responsible for corporate finance for eight years. In this capacity, he contributed to the growth of Intrepid Energy from a start-up 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. He was appointed to the Board as Finance Director of Serica in 2005.

PETER SADLER Operations Director Peter Sadler has a career spanning over 31 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. He was appointed to the Board as Chief Operating Officer of Serica in 2008.

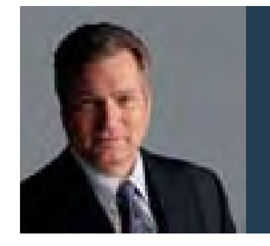
NEIL PIKE Non-Executive Director Neil Pike has been involved in the global petroleum business as a financier since joining the energy department at Citibank in 1975 until joining the board of Serica. Neil remained an industry specialist with Citibank throughout his career and was closely involved in the development of specialised oil field finance. Latterly he was responsible for Citibank's relationships with the oil and gas industry worldwide. He was appointed to the Board of Serica in 2004.



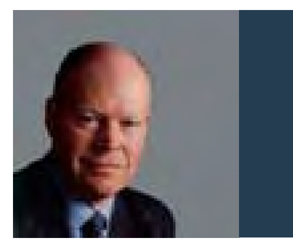
IAN VANN Non-Executive Director Ian Vann was employed by BP from 1976, and directed and led BP's global exploration efforts from 1996 until his retirement in January 2007. He was appointed to the executive leadership team of the Exploration & Production Division of BP in 2001, initially as Group Vice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



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. He was appointed to the Board of Serica in 2007.



JONATHAN CARTWRIGHT Non-Executive Director Jonathan Cartwright retired from the Board of Caledonia Investments plc on 31 December 2009, having served as Finance Director since 1991. He qualified as a Chartered Accountant with Peat, Marwick, Mitchell & Co (now KPMG LLP), served as Finance Director of Transworld Petroleum (UK) Limited and subsequently worked for Hanson plc initially as Group Financial Controller and also as Finance Director of a number of Hanson subsidiaries. He served as a non-Executive Director for Bristow Group Inc. from 1996 – 2009. He was appointed to the Board of Serica in 2008.



Onshore seismic survey in the Kutai PSC in Kalimantan, Indonesia. Shallow shot-holes are drilled and dynamite charges placed in them. Miles of cable are laid on the surface along the cleared track of the required seismic line. Geophones (low frequency microphones) are attached to the cable at regular intervals. The operator (seen here) monitors on his computer the signals produced by the geophones and when personnel are clear he fires the first shot. The sound waves reflected by the geological rock layers in the earth are received by the geophones and form one of many "records" for later processing into what will eventually become a seismic section, representing the layers of rock in the subsurface.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE GROUP AND COMPANY FINANCIAL STATEMENTS

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

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

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors 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 IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance; and

- state that the Group and Company has complied with IFRSs, 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 Group and Company and enable them to ensure that the Group and Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and 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 financial statements of Serica Energy Plc for the year ended 31 December 2009 which comprise the Group Income Statement, the Group Total Statement of Comprehensive Income, the Group and Parent Company Balance Sheet, the Group and Parent Company Cash Flow Statement, the Group and Parent Company Statement of Changes in Equity and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 51 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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 2009 and of the Group's profit for the year then ended.

Ernst & Young LLP

Justine Belton,
(Senior Statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
1 More London Place
London
SE1 2AF
16 March 2010

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

Justine Belton,
(Senior Statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
1 More London Place
London
SE1 2AF
16 March 2010

GROUP INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

Notes		2009 US$000	2008 US$000
4	**Sales revenue**	**7,643**	**–**
	Cost of sales	(6,376)	–
	Gross profit	**1,267**	**–**
5	Administrative expenses	(6,639)	(8,628)
	Foreign exchange gain/(loss)	228	(370)
	Pre-licence costs	(901)	(1,150)
14	Asset write offs	(8,590)	(24,034)
27	Share-based payments	(1,687)	(1,781)
6	Depreciation	(118)	(146)
	Operating loss before net finance revenue and tax	**(16,440)**	**(36,109)**
9	Profit on disposal	26,864	36,620
10	Finance revenue	641	1,823
11	Finance costs	(3,754)	(3,138)
	Profit/(loss) before taxation	**7,311**	**(804)**
12	Taxation (charge)/credit for the year	(1,531)	228
	Profit/(loss) for the year from continuing operations	**5,780**	**(576)**
	Discontinued operations		
9 c)	Loss for the year from discontinued operations	–	(395)
	Profit/(loss) for the year	**5,780**	**(971)**
	Profit/(loss) per ordinary share – EPS		
13	Basic and diluted EPS on profit/(loss) for the year (US$)	0.03	(0.006)
13	Basic and diluted EPS – continuing operations (US$)	0.03	(0.003)

Total Statement of Comprehensive Income

There are no other comprehensive income items other than those passing through the income statement.

BALANCE SHEET AS AT 31 DECEMBER

Notes		Group 2009 US$000	2008 US$000	Company 2009 US$000	2008 US$000
	Non-current assets				
14	Exploration & evaluation assets	66,030	69,711	–	–
15	Property, plant and equipment	53,864	68,526	–	–
16	Goodwill	148	295	–	–
17	Investments in subsidiaries	–	–	130,684	130,684
18	Financial assets	–	1,500	–	1,500
18	Other receivables	5,639	3,945	–	–
		125,681	143,977	130,684	132,184
	Current assets				
19	Inventories	2,855	4,618	–	–
20	Trade and other receivables	106,381	7,069	211,664	157,856
20	Financial assets	1,500	–	1,500	–
21	Cash and cash equivalents	18,412	56,822	16,922	37,758
		129,148	68,509	230,086	195,614
	TOTAL ASSETS	**254,829**	**212,486**	**360,770**	**327,798**
	Current liabilities				
22	Trade and other payables	(9,622)	(14,599)	(6,569)	(8,366)
23	Financial liabilities	(46,447)	(32,105)	(46,447)	(32,105)
	Non-current liabilities				
23	Financial liabilities	(24,371)	–	(24,371)	–
12 d)	Deferred income tax liabilities	(1,435)	(295)	–	–
	TOTAL LIABILITIES	**(81,875)**	**(46,999)**	**(77,387)**	**(40,471)**
	NET ASSETS	**172,954**	**165,487**	**283,383**	**287,327**
25	Share capital	207,633	207,633	172,361	172,361
17	Merger reserve	–	–	112,174	112,174
	Other reserves	17,197	15,510	17,197	15,510
	Accumulated deficit	(51,876)	(57,656)	(18,349)	(12,718)
	TOTAL EQUITY	**172,954**	**165,487**	**283,383**	**287,327**

Approved by the Board on 16 March 2010

Paul Ellis
Chief Executive Officer

Christopher Hearne
Finance Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

Group	Share capital US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2008	158,871	13,729	(56,685)	115,915
Loss for the year	–	–	(971)	(971)
Total comprehensive income	–	–	(971)	(971)
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
At 31 December 2008	**207,633**	**15,510**	**(57,656)**	**165,487**
Profit for the year	–	–	5,780	5,780
Total comprehensive income	–	–	5,780	5,780
Share-based payments	–	1,687	–	1,687
At 31 December 2009	**207,633**	**17,197**	**(51,876)**	**172,954**

Company	Share capital US$000	Merger reserve US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2008	123,599	112,174	13,729	(5,551)	243,951
Loss for the year	–	–	–	(7,167)	(7,167)
Total comprehensive income	–	–	–	(7,167)	(7,167)
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
At 31 December 2008	**172,361**	**112,174**	**15,510**	**(12,718)**	**287,327**
Loss for the year	–	–	–	(5,631)	(5,631)
Total comprehensive income	–	–	–	(5,631)	(5,631)
Share-based payments	–	–	1,687	–	1,687
At 31 December 2009	**172,361**	**112,174**	**17,197**	**(18,349)**	**283,383**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Group		Company	
	2009	2008	**2009**	2008
	US$000	US$000	**US$000**	US$000
Cash flows from operating activities:				
Operating loss (including discontinued)	(16,440)	(36,165)	(4,281)	(5,320)
Adjustments for:				
Depreciation	118	146	–	–
Depletion and amortisation	2,227	–	–	–
Asset write offs	8,590	24,034	–	–
Share-based payments	1,687	1,781	1,687	1,781
(Increase)/decrease in trade and other receivables	(7,810)	11,528	209	488
Decrease/(increase) in inventories	40	2,092	–	–
(Decrease)/increase in trade and other payables	(2,071)	(11,981)	(1,450)	1,643
Cash outflow from operations	(13,659)	(8,565)	(3,835)	(1,408)
Taxes received	–	3,227	–	–
Net cash outflow from operations	**(13,659)**	**(5,338)**	**(3,835)**	**(1,408)**
Cash flows from investing activities:				
Purchase of property, plant and equipment	(41,609)	(62,605)	–	–
Purchase of E&E assets	(22,976)	(27,939)	–	–
Funding provided to Group subsidiaries	–	–	(53,662)	(41,697)
Proceeds from disposals	5,000	55,831	–	–
Interest received	50	1,898	43	1,354
Net cash used in investing activities	**(59,535)**	**(32,815)**	**(53,619)**	**(40,343)**
Cash proceeds from financing activities:				
Net proceeds from issue of shares	–	48,581	–	48,581
Proceeds on exercise of options	–	181	–	181
Proceeds from loans and borrowings	40,144	25,000	40,144	25,000
Finance costs paid	(5,360)	(1,425)	(3,526)	(1,425)
Net cash from financing activities	**34,784**	**72,337**	**36,618**	**72,337**
Net (decrease)/increase in cash and cash equivalents	**(38,410)**	**34,184**	**(20,836)**	**30,586**
Cash and cash equivalents at 1 January	56,822	22,638	37,758	7,172
Cash and cash equivalents at 31 December	**18,412**	**56,822**	**16,922**	**37,758**

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 2009 were authorised for issue by the Board of Directors on 16 March 2010 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 South East 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 2009. 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 year ended 31 December 2009 and as applied in accordance with the provisions of the Companies Act 2006. 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 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The deficit dealt with in the financial statements of the parent Company was US$5,631,000 (2008: US$7,167,000).

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 2009.

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 2009 the Group had US$52 million of debt net of available cash and, following the receipt of proceeds from the disposal of assets to KrisEnergy, by 12 March 2010 the Company had US$40 million of net cash.

The Directors are required to consider the availability of resources to meet the Group and Company's liabilities for the forseeable future. As described in the MD&A, the current business environment is challenging and access to new equity and debt remains uncertain. However, the management considers that it will not require recourse to either to cover its existing commitments.

This is based upon the following factors: the Kambuna field commenced production in August 2009 and operating cash inflows are now being generated; gas sales contracts for Kambuna are in place 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. 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 annual 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 assessment of commercial reserves, the impairment of the Group and Company's assets (including goodwill, oil & gas development assets and E&E assets), decommissioning provisions and share-based payment costs.

Assessment of commercial reserves

Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment charge is required. The Group employs independent reserves specialists who periodically assess the Group's level of commercial reserves by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Group's assets. In addition the Group undertakes its own assessment of commercial reserves and related future capital expenditure by reference to the same datasets using its own internal expertise.

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 and production 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 cash generating units ('CGUs') when facts and circumstances suggest that the carrying amount of a regional CGU 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.

Management is required to assess the carrying value of investments in subsidiaries in the parent company balance sheet for impairment by reference to the recoverable amount. This requires an estimate of amounts recoverable from oil and gas assets within the underlying subsidiaries.

Decommissioning provisions

Management has determined that, based on their understanding of the contractual agreements they are party to in Indonesia, the Company does not have any exposure to future decommissioning costs as at 31 December 2009. However these assumptions involve judgement, which may be subject to change, and therefore the position will be reviewed on an ongoing basis. A change in circumstances may result in a liability being recorded in future periods.

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).

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., Serica East Seruway B.V., Serica Sidi Moussa B.V. and Serica Foum Draa 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 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 in the E&E phase. 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 CGUs for the purposes of impairment testing; Indonesia, 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 CGUs 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 CGU 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.

Depletion

Oil and gas properties are not depleted 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, 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 2008 or 2009.

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

Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of Serica Energy plc ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the income statement. 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

Certain new standards, amendments to and interpretations of existing standards have been issued and are effective for the Group's accounting periods beginning on or after 1 January 2010 or later periods which the Group has not early adopted. Those that are applicable to the Group are as follows:

i) IFRS 3 'Business Combinations (Revised)' effective for annual periods beginning on or after 1 July 2009, have been enhanced to, amongst other matters, specify the accounting treatments for acquisition costs, contingent consideration, pre-existing relationships and reacquired rights. The revised standards include detailed guidance in respect of step acquisitions and partial disposals of subsidiaries and associates as well as in respect of allocation of income to non-controlling interests. Further, an option has been added to IFRS 3 to permit an entity to recognise 100 per cent of the goodwill of an acquired entity, not just the acquiring entity's portion of the goodwill. The impact of this standard on the group will be assessed when a business combination transaction occurs.
ii) IAS 27 'Consolidated and Separate Financial Statements (Amendments)' effective for annual periods beginning on or after 1 July 2009, prescribes accounting treatment in respect of change in ownership interest in a subsidiary, allocation of losses incurred by a subsidiary between controlling and non-controller interests and accounting for loss of interest in a subsidiary. This may affect the group where a subsidiary with non-controlling interest becomes loss making or, there is a change in ownership interest in any of its subsidiaries.
iii) IFRIC 17 'Distributions of Non-cash Assets to owners' this interpretation provides guidance in respect of accounting for non-cash asset distributions to shareholders. This interpretation is effective for periods beginning on or after 1 July 2009. Management will consider its impact on the financial position of the group at the time of any such transaction.
iv) 'Improvements to International Financial Reporting Standards (issued 2008)' and 'Improvements to International Financial Reporting Standards (issued 2009)' – in May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

3. Operating Segment Information

The Group records its primary operating segment information on the basis of geographical segments which 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 2009 and 2008. Costs of the Singapore office are included in the Indonesian geographical segment. Costs associated with the Morocco licences are included in the UK & NW Europe geographical segment.

Year ended 31 December 2009	**Indonesia US$000**	**Vietnam US$000**	**UK & NW Europe US$000**	**Spain US$000**	**Total US$000**
Revenue	**7,643**	**–**	**–**	**–**	**7,643**
Continuing operations					
Other expenses	(7,346)	(10)	(7,063)	(55)	(14,474)
Pre-licence costs	(532)	–	(369)	–	(901)
Asset write offs	(944)	–	(7,477)	(169)	(8,590)
Depreciation	(13)	–	(105)	–	(118)
Operating loss and segment loss	(1,192)	(10)	(15,014)	(224)	(16,440)
Profit on disposal					26,864
Finance revenue					641
Finance costs					(3,754)
Profit before taxation					7,311
Taxation charge for the year					(1,531)
Profit after taxation					**5,780**
Other segment information:					
Exploration and evaluation assets	9,681	–	56,349	–	66,030
Plant, property and equipment	53,824	–	40	–	53,864
Goodwill	148	–	–	–	148
Other assets	115,047	–	3,382	58	118,487
Unallocated assets					16,300
Total assets	**178,700**	**–**	**59,771**	**58**	**254,829**
Segment liabilities	(4,081)	–	(5,527)	(14)	(9,622)
Unallocated liabilities					(72,253)
Total liabilities	**(4,081)**	**–**	**(5,527)**	**(14)**	**(81,875)**
Capital expenditure 2009:					
Exploration and evaluation assets	5,475	1,381	15,951	169	22,976
Property, plant and equipment	41,557	–	52	–	41,609

Activities in the Vietnam geographical segment were discontinued in 2009 following the disposal of certain interests in South East Asia.

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

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

4. Sales Revenue

	2009 US$000	2008 US$000
Gas sales	3,985	–
Condensate sales	3,658	–
	7,643	**–**

All gas and condensate sales revenue arising in 2009 was from one customer, PLN.

5. Analysis of expenses by function

	2009 US$000	2008 US$000
Administrative	6,639	8,628
Asset write offs	8,590	24,034
Other	2,478	3,447
	17,707	**36,109**

6. Group Operating Loss

	2009 US$000	2008 US$000
This is stated after charging:		
Depletion of oil and gas properties	2,227	–
Depreciation of other property, plant and equipment	118	146
Total depreciation, depletion and amortisation expense	**2,345**	**146**

Depletion of oil and gas properties is classified with cost of sales.

	2009 US$000	2008 US$000
Operating lease rentals (minimum lease payments):		
– Land and buildings	367	355
– Other	2	15
Total lease payments recognised as an expense	**369**	**370**

7. Auditor's Remuneration

	2009 US$000	2008 US$000
Audit of the Group accounts	43	41
Audit of the Company's accounts	131	152
Total audit fees	**174**	**193**

	US$000	US$000
Other fees to auditor:		
Audit of Company's subsidiaries pursuant to legislation	17	18
Other services pursuant to legislation	62	128
Corporate finance services	–	41
Taxation services	28	25
Other services (i)	22	43
	129	**255**

(i) Other fees were incurred in respect of various advisory services in 2009.

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.

8. Staff Costs and Directors' Emoluments

a) Staff Costs

The average monthly number of persons employed by the Group during the year was:	2009 No.	2008 No.
Management	3	3
Technical	15	17
Finance and administration	15	16
	33	**36**

	US$000	US$000
Staff costs for the above persons:		
Wages and salaries	3,743	3,648
Social security costs	380	387
Other pension costs	622	406
Share-based long-term incentives (including related NI cost)	1,737	1,675
	6,482	**6,116**

b) Directors' Emoluments

The emoluments of the individual Directors were as follows:

	Salary and fees 2009 US$000	Bonus 2009 US$000	Benefits in kind 2009 US$000	Total 2009 US$000	Total 2008 US$000
A Craven Walker	110	–	–	110	129
P Ellis	331	78	9	418	398
C Hearne	290	70	6	366	344
P Sadler (Appointed 28 November 2008)	315	78	7	400	33
N Pike	63	–	–	63	73
I Vann	55	–	–	55	64
S Theede	55	–	–	55	64
J Cartwright (Appointed 27 March 2008)	55	–	–	55	49
	1,274	**226**	**22**	**1,522**	**1,154**

	2009	2008
Number of Directors securing benefits under defined contribution schemes	3	3
Number of Directors who exercised share options	–	–

	US$000	US$000
Aggregate gains made by Directors on the exercise of options	–	–

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.

9. Asset Disposals and discontinued operation

a) 2009 South East Asia asset disposals

In December 2009 the Company disposed of a package of assets in Indonesia and Vietnam to KrisEnergy Limited ("KrisEnergy"), a recently formed private E&P company based in Singapore.

The assets sold comprised a 25% interest in the Kambuna gas field in Indonesia, a 24.6% interest in the Kutai PSC in Indonesia and a 33.33% interest in the Block 06/94 PSC in Vietnam. Completion of the Kutai element of the transaction is subject to Indonesian government approval. The disposal generated a profit of US$26.9 million after crediting the relevant proportional element of book costs from development assets, E&E assets, goodwill and working capital balances and deducting applicable fees. Further details of book costs relating to the assets sold are given in notes 14, 15 and 16 and summarised in the profit on disposal calculation below:

	Total US$000
Base consideration (*)	98,650
Interim period and working capital adjustments	5,500
Total consideration (excluding interest)	104,150
Less book costs of assets disposed	
E&E assets (see note 14)	
Interest in Vietnam Block 06/94 PSC	(15,229)
24.6% interest in Kutai PSC	(3,782)
Property, Plant and Equipment (see note 15)	
25% interest in Glagah Kambuna TAC	(53,926)
Goodwill (see note 16)	(147)
Working capital, other assets and costs	(4,202)
Assets disposed	(77,286)
Profit on disposal of asset interests	**26,864**

* US$5,000,000 of the base consideration was received in December 2009. The amounts outstanding at 31 December 2009 were settled in January 2010.

b) 2008 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 with property, plant and equipment), goodwill and other working capital balances.

c) 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 2009 and 31 December 2008 is noted below.

	2009 **US$000**	2008 US$000
Revenue	–	–
Expenses	–	(56)
Loss on disposal of E&E assets	–	(3,720)
Net finance (costs)/revenue	–	(6)
Loss before tax from operations	–	(3,782)
Taxation credit (see note 12)	–	3,387
Loss for the year from operations	**–**	**(395)**
Loss per share from discontinued operations		
Basic and diluted (US$)	–	(0.002)

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.

10. Finance Revenue

	2009 US$000	2008 US$000
Bank interest receivable	49	1,488
Other interest receivable	592	335
Total finance revenue	**641**	**1,823**

Other interest receivable primarily comprises amounts due from the effective date on the consideration from the South East Asia asset disposal.

11. Finance Costs

	2009 US$000	2008 US$000
Bank loans	3,754	3,138
Total finance costs	**3,754**	**3,138**

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

12. Taxation

a) Tax charged/(credited) in the income statement

	2009 US$000	2008 US$000
Tax charged/(credited) in the income statement		
Charge for the year	391	–
Total current income tax charge	391	–
Deferred tax		
Origination and reversal of temporary differences in the current year	1,140	(228)
Release on disposal – discontinued operations	–	(3,387)
Total deferred tax charge/(credit)	1,140	(3,615)
Tax charge/(credit) in the income statement	**1,531**	**(3,615)**
The tax charge/(credit) in the income statement is disclosed as:		
Tax charge/(credit) on continuing operations	1,531	(228)
Tax (credit) on discontinued operations (see note 9c)	–	(3,387)
	1,531	**(3,615)**

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

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:

	2009	2008
	US$000	US$000
Profit/(loss) from continuing operations before taxation	7,311	(804)
Loss from discontinued operations before taxation	–	(3,782)
Accounting profit/(loss) before taxation	**7,311**	**(4,586)**
Expected tax charge/(credit) at standard UK corporation tax rate of 28% (2008 – 28.5%)	2,047	(1,307)
Expenses not deductible for tax purposes	2,081	1,010
Unrecognised deferred tax assets	5,071	7,798
Release of deferred tax liability	(147)	(228)
Norwegian tax credit	–	(3,387)
Gain on disposal not chargeable to tax	(7,521)	(9,359)
Asset write offs	–	1,858
Tax charge/(credit) reported in the income statement	**1,531**	**(3,615)**

c) Unrecognised tax losses

The benefit of approximately US$60.0 million (2008: US$40.4 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$111.5 million (2008: US$86.8 million) that are available indefinitely for offset against future trading profits of the companies in which the losses arose. Of this amount US$51.5 million (2008: US$46.4 million) has been set off against taxable temporary differences.

d) Deferred tax

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

	2009 US$000	2008 US$000
Deferred tax liability:		
Fair value adjustments on business combinations	148	295
Temporary differences on capital expenditure	1,287	–
Deferred tax liability	**1,435**	**295**
Deferred tax asset:		
Tax losses carried forward	–	–
Deferred tax asset	**–**	**–**

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

	2009 US$000	2008 US$000
Deferred tax in the income statement:		
Release of liability on disposal	(147)	(89)
Release of liability on write off	–	(139)
Temporary differences on capital expenditure	1,287	–
Release of liability on discontinued operation	–	(3,387)
Deferred income tax charge/(credit)	**1,140**	**(3,615)**

e) Unrecognised deferred tax liability

In 2009 there are no material temporary differences associated with investments with subsidiaries for which deferred tax liabilities have not been recognised.

f) 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%.

g) Company

There is no current or deferred taxation charge, or deferred tax asset/liability recognised for the Company (2008: US$nil).

13. 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 year ended 31 December 2008, there is no dilutive effect of the share options in 2008.

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

	2009 US$000	2008 US$000
Profit/(loss) from continuing operations	5,780	(576)
Loss from discontinued operations	–	(395)
Net profit/(loss) attributable to equity holders of the parent	**5,780**	**(971)**

	2009 '000	2008 '000
Basic weighted average number of shares	176,518	176,067
Diluted weighted average number of shares	176,959	176,067

	2009 US$	2008 US$
Basic and diluted EPS on profit/(loss) for the year (US$)	0.03	(0.006)
Basic and diluted EPS – continuing operations (US$)	0.03	(0.003)
Basic and diluted EPS on loss for the year –discontinued(US$)	–	(0.002)

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.

14. Exploration and Evaluation Assets

Group

	Total US$000
Cost:	
1 January 2008	71,874
Additions	27,248
Disposals	(6,136)
Write offs	(23,275)
31 December 2008	69,711
Additions	22,976
Disposals	(19,011)
Write offs	(7,646)
31 December 2009	66,030
Provision for impairment:	
1 January 2008 and 1 January 2009	–
Impairment charge for the year	–
31 December 2009	–
Net book value:	
31 December 2009	**66,030**
31 December 2008	**69,711**
1 January 2008	**71,874**

The E&E asset disposals in 2009 relate to the disposal of the Group's entire interest in the Block 06/94 PSC in Vietnam, and part disposal of a 24.6% interest in the Kutai PSC in Indonesia (see note 9a).

The E&E asset write offs during 2009 totalled US$7,646,000 with the most significant component being the Q1 2009 charge of US$7,147,000 which related to the costs incurred in 2009 on the completion of the Chablis appraisal well in Block 48/16b in the UK North Sea, which spudded in December 2008. Costs booked in respect of this asset from 2008 and earlier periods were written off in Q4 2008.

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

Company

The Company has no E&E assets.

15. 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 2008	19,165	178	505	19,848
Additions	62,587	12	6	62,605
Disposals (see note 9b)	(13,476)	–	–	(13,476)
31 December 2008	68,276	190	511	68,977
Additions	41,595	14	–	41,609
Disposals (see note 9a)	(54,936)	–	(80)	(55,016)
31 December 2009	54,935	204	431	55,570
Depreciation and depletion				
1 January 2008	–	125	180	305
Charge for the year	–	29	117	146
31 December 2008	–	154	297	451
Charge for the year	2,227	20	98	2,345
Disposals (see note 9a)	(1,056)	–	(34)	(1,090)
31 December 2009	1,171	174	361	1,706
Net book value				
31 December 2009	**53,764**	**30**	**70**	**53,864**
31 December 2008	**68,276**	**36**	**214**	**68,526**
1 January 2008	**19,165**	**53**	**325**	**19,543**

Oil and gas properties

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$1.2 million (2008:US$ 0.6 million), at a weighted average interest of 4.6%. Depletion charges on oil and gas properties are classified within 'cost of sales'.

Company

The Company has no property, plant and equipment.

16. Goodwill

Group

	Total US$000
At 1 January 2008	768
Disposals (see note 9b)	(89)
Write offs	(384)
At 31 December 2008	295
Disposals (see note 9a)	(147)
At 31 December 2009	**148**

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

Indonesia US$148,000 (2008: US$295,000).

These represent the lowest level within the Group at which goodwill is monitored for internal management purposes. The Group balance sheet includes US$0.1 million of corresponding deferred tax liabilities at 31 December 2009 (US$0.3 million at 31 December 2008) 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.

17. Investments

Company – Investment in subsidiaries	**US$000**
Cost:	
At 31 December 2008 and 2009	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 612 of the Companies Act 2006, 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:

Name of company:	**Holding**	**Nature of business**	**% voting rights and shares held 2009**	% voting rights and shares held 2008
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 & iv)	Ordinary	Exploration	100	100
Serica Energy Pte Ltd (i & v)	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 Glagah Kambuna B.V. (i& iii)	Ordinary	Development	100	100
Serica East Seruway B.V. (i & iii)	Ordinary	Exploration	100	100
Serica Sidi Moussa B.V. (i & iii)	Ordinary	Exploration	100	–
Serica Foum Draa B.V. (i & iii)	Ordinary	Exploration	100	–

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

18. Other Non-current assets

	Group		Company	
	2009	2008	2009	2008
	US$000	US$000	US$000	US$000
Financial assets	**–**	**1,500**	**–**	**1,500**
Other receivables	**5,639**	**3,945**	**–**	**–**

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		Company	
	2009	2008	2009	2008
	US$000	US$000	US$000	US$000
Condensate stocks	151	–	–	–
Materials and spare parts	2,704	4,618	–	–
	2,855	**4,618**	**–**	**–**

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		Company	
	2009	2008	**2009**	2008
	US$000	US$000	**US$000**	US$000
Due within one year:				
Amounts owed by Group undertakings	–	–	209,880	156,038
Trade receivables	2,390	–	–	–
Other receivables	102,370	5,746	1,070	1,247
Prepayments and accrued income	1,621	1,323	714	571
Trade and other receivables	**106,381**	**7,069**	**211,664**	**157,856**
Financial assets	**1,500**	**–**	**1,500**	**–**

At the reporting date the Group had no past due or impaired trade and other receivables. Trade receivables at 31 December 2009 arise from one customer, PLN. Other receivables at 31 December 2009 include US$99.7 million of outstanding consideration (including working capital and interest) from asset disposals. These amounts and the trade receivables due have been received since the reporting date. The Directors consider the carrying amount of trade and other receivables approximates to their fair value.

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. 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 2009 US$000	2008 US$000	Company 2009 US$000	2008 US$000
Cash at bank and in hand	2,112	9,957	622	2,311
Short-term deposits	16,300	46,865	16,300	35,447
	18,412	**56,822**	**16,922**	**37,758**

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.

Financial institutions, and their credit ratings, which held greater than 10% of the Group's cash and short-term deposits at the balance sheet date were as follows:

	S&P credit rating	Group 2009 US$000	2008 US$000	Company 2009 US$000	2008 US$000
HSBC Bank plc	AA	5,030	11,560	4,443	2,584
J.P. Morgan Chase	AA-	6,230	15,504	6,230	15,504
Barclays Bank plc	AA-	4,106	24,665	3,249	14,670
Bank of Scotland PLC	A+	3,000	5,000	3,000	5,000

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 2009 US$000	2008 US$000	Company 2009 US$000	2008 US$000
Current:				
Trade payables	4,565	3,887	786	2,372
Other payables	5,057	10,712	783	647
Amounts owed to Group undertaking	–	–	5,000	5,347
	9,622	**14,599**	**6,569**	**8,366**

23. Financial Liabilities

	Group		Company	
	2009	2008	**2009**	2008
	US$000	US$000	**US$000**	US$000
Current bank loans:				
Variable rate multi-option facility	46,447	32,105	46,447	32,105
	46,447	**32,105**	**46,447**	**32,105**
Non-current bank loans:				
Variable rate multi-option facility	24,371	–	24,371	–
	24,371	**–**	**24,371**	**–**

Bank loans

On 16 November 2009 the Company entered into a new US$100 million senior secured revolving credit facility to replace its previous facility of a similar amount. The new facility, which has been arranged with J.P.Morgan plc, Bank of Scotland plc and Natixis as Mandated Lead Arrangers, is for a term of three years. The facility is principally to refinance the Company's outstanding borrowings on the Kambuna field which commenced production of gas and condensate in August 2009. It will also be available to finance the appraisal and development of the Columbus field and for general corporate purposes.

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.

The total gross liability as at 31 December 2009 was US$72.5 million which is disclosed net of the unamortised portion of allocated issue costs. The term of the facility is greater than one year after the balance sheet date and the liability is therefore classified as non current. Following the receipt of proceeds from the disposal of asset interests to KrisEnergy in January 2010, US$47.6million of the gross liability was repaid. This element is classified as current.

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 2010/11 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 2009	Within 1 year US$000	1-2 years US$000	2-5 years US$000	Total US$000
Fixed rate				
Short-term deposits	16,300	–	–	16,300
Short-term financial assets	1,500	–	–	1,500
				17,800
Floating rate				
Cash	2,112	–	–	2,112
Bank loans	(46,447)	–	(24,371)	(70,818)
				(68,706)

Year ended 31 December 2008	Within 1 year US$000	1-2 years US$000	2-5 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
Floating rate				
Cash	9,957	–	–	9,957
Bank loans	(32,105)	–	–	(32,105)
				(22,148)

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 2009 US$000	Effect on (loss) before tax 2008 US$000
+0.75%	345	230
-0.75%	(345)	(230)

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 2009	Within 1 year US$000	1-2 years US$000	2-5 years US$000	Total US$000
Fixed rate				
Short-term deposits	16,300	–	–	16,300
Short-term financial assets	1,500	–	–	1,500
				17,800
Floating rate				
Cash	622	–	–	622
Bank loans	(46,447)	–	(24,371)	(70,818)
				(70,196)

Year ended 31 December 2008	Within 1 year US$000	1-2 years US$000	2-5 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
Floating rate				
Cash	2,311	–	–	2,311
Bank loans	(32,105)	–	–	(32,105)
				(29,794)

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		**Company**	
	2009	2008	**2009**	2008
	US$000	US$000	**US$000**	US$000
Cash and cash equivalents:				
Pounds sterling	543	5,812	192	1,973
Canadian dollars	48	164	1	123
Norwegian kroner	283	4,474	–	–
Singapore dollars	69	60	–	–
Indonesian rupiah	61	74	–	–
Euros	121	47	–	–
Accounts receivable:				
Pounds sterling	1,196	2,235	117	211
Trade payables:				
Pounds sterling	3,619	2,776	221	1,371
Canadian dollars	5	11	5	11
Indonesian rupiah	–	124	–	–
Euros	240	53	222	42
Bank loans:				
Pounds sterling	–	7,354	–	7,354

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.

	Effect on profit before tax 2009 US$000	Effect on (loss) before tax 2008 US$000
Increase/decrease in foreign exchange rate		
10% strengthening of US$ against £GBP	289	140
10% weakening of US$ against £GBP	(289)	(140)
10% strengthening of US$ against NOK	–	(447)
10% weakening of US$ against NOK	–	447

Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 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 2009 gross of associated unamortised financing costs.

Year ended 31 December 2009	**Within 1 year US$000**	**1 to 2 years US$000**	**2 to 5 years US$000**	**Total US$000**
Interest bearing bank loans	47,550	–	24,950	72,500

Year ended 31 December 2008	**Within 1 year US$000**	**1 to 2 years US$000**	**2 to 5 years US$000**	**Total US$000**
Interest bearing bank loans	32,876	–	–	32,876

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 2009 US$000	2008 US$000	Fair value 2009 US$000	2008 US$000
Financial assets				
Cash and deposits	18,412	56,822	18,412	56,822
Financial assets	–	1,500	–	1,500
Trade and other receivables *	104,760	5,746	104,760	5,746
Financial liabilities				
Trade and other payables *	(9,622)	(14,599)	(9,622)	(14,599)
Bank loans *	(70,818)	(32,105)	(70,818)	(32,105)

Company	Book value 2009 US$000	2008 US$000	Fair value 2009 US$000	2008 US$000
Financial assets				
Cash and deposits	16,922	37,758	16,922	37,758
Financial assets	1,500	1,500	1,500	1,500
Trade and other receivables *	210,950	157,285	210,950	157,285
Financial liabilities				
Trade and other payables *	(6,569)	(8,366)	(6,569)	(8,366)
Bank loans *	(70,818)	(32,105)	(70,818)	(32,105)

* 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 2009, capital employed of the Group amounted to US$243.8 million (comprised of US$173.0 million of equity shareholders' funds and US$70.8 million of borrowings), compared to US$197.6 million at 31 December 2008 (comprised of US$165.5 million of equity shareholders' funds and US$32.1 million of borrowings).

At 31 December 2009, capital employed of the Company amounted to US$354.2 million (comprised of US$283.4 million of equity shareholders' funds and US$70.8 million of borrowings), compared to US$319.4 million at 31 December 2008 (comprised of US$287.3 million of equity shareholders' funds and US$32.1 million of borrowings).

25. Equity Share Capital

	2009 Number	2009 US$000	2008 Number	2008 US$000
Authorised:				
Ordinary shares of US$0.10	350,000,000	35,000	250,000,000	25,000
Ordinary 'A' share of £50,000	1	90	1	90
	350,000,001	**35,090**	**250,000,001**	**25,090**

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.

In June 2009 the authorised ordinary share capital was increased from 250,000,000 ordinary shares to 350,000,000 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 2008	151,647,957	15,255	143,616	158,871
Shares issued (i)	24,770,354	2,477	46,104	48,581
Options exercised (ii)	100,000	10	171	181
As at 1 January 2009 and as at 31 December 2009	**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 2008	151,647,957	15,255	108,344	123,599
Shares issued (i)	24,770,354	2,477	46,104	48,581
Options exercised (ii)	100,000	10	171	181
As at 1 January 2009 and as at 31 December 2009	**176,518,311**	**17,742**	**154,619**	**172,361**

(i) 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.
(ii) 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 2009 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2009 US$000
Cash	9,957	(7,845)	–	2,112
Short-term deposits	46,865	(30,565)	–	16,300
	56,822	**(38,410)**	**–**	**18,412**

Analysis of Company net cash

	1 January 2009 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2009 US$000
Cash	2,311	(1,689)	–	622
Short-term deposits	35,447	(19,147)	–	16,300
	37,758	**(20,836)**	**–**	**16,922**

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 1,975,000 ordinary shares of the Company. No further options will be granted under the Serica BVI option plan.

As at 31 December 2009, the Company has granted 9,484,000 options under the Serica 2005 Option Plan, 8,672,000 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 8,672,000 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$1,687,000 has been charged to the income statement in the year ended 31 December 2009 (2008 – US$1,781,000) and a similar amount credited to other reserves. Of this total charge US$313,000 (2008 – US$216,000) was in respect of key management personnel (defined in note 8). The total 2009 charge of US$1,687,000 includes an amount of US$788,000 in respect of the modification in December 2009 of certain options whose exercise period was extended by five years.

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 and January 2009 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 modification of options in December 2009 was consistently valued in line with the Company's valuation policy, assumptions made included a weighted average risk-free interest rate of 4%, no dividend yield, and a volatility factor 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	**2009 Number**	**2009 WAEP Cdn$**	2008 Number	2008 WAEP Cdn$
Outstanding as at 1 January	2,332,500	1.53	2,722,500	1.57
Expired during the year	(347,500)	2.00	(300,000)	1.80
Exercised	–	–	(100,000)	1.80
Outstanding as at 31 December	1,975,000	1.45	2,322,500	1.53
Exercisable as at 31 December	1,975,000	1.45	2,322,500	1.53

Serica 2005 option plan		**£**		£
Outstanding as at 1 January	8,479,000	0.87	5,067,000	1.00
Granted during the year	750,000	0.32	3,412,000	0.69
Cancelled during the year	(557,000)	0.87	–	–
Outstanding as at 31 December	8,672,000	0.82	8,479,000	0.87
Exercisable as at 31 December	6,387,812	0.90	2,678,000	1.01

The weighted average share price at the date of exercise for the options exercised in 2008 is Cdn$1.90.

For the Serica BVI option plan, the exercise price for outstanding options at the 2009 year end ranges from Cdn$1.00 to Cdn$2.00 (2008: Cdn$1.00 to Cdn$2.00). For the Serica 2005 option plan, the exercise price for outstanding options at the 2009 year end ranges from £0.32 to £1.12 (2008:£0.40 to £1.12).

28. Commitments under Operating Leases

Operating lease agreements where the Group is lessee

At 31 December 2009 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	
	2009	2008	**2009**	2008
	US$000	US$000	**US$000**	US$000
Not later than one year	148	328	–	–
After one year but not more than five years	–	72	–	–
	148	**400**	**–**	**–**

29. Capital Commitments and Contingencies

At 31 December 2009, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation assets amounted to US$6.7 million for the Group and US$nil for the Company (2008 - US$5.9 million and US$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 2009, the Group anticipates it will discharge its minimum financial obligations as follows:

Year ending 31 December 2010 US$11,700,000
Year ending 31 December 2011 US$1,235,000

These obligations reflect the Group's share of interests in the defined work programmes and are not formally contracted at 31 December 2009. 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 2009.

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 except for the remuneration items disclosed in the Directors Report above.
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

In January 2010 Serica announced that it has reached agreement with Premier Oil plc ("Premier") for the farm-out of Block 22/19c. An exploration well on the Oates prospect, funded by Premier, is planned to be drilled in the middle of 2010 to a depth of approximately 10,000 feet. In return for this funding, Premier will earn a 50% interest in Block 22/19c and will assume the role of operator. Serica will retain a 50% interest.

In January 2010 Serica announced that it had reached agreement with Agora Oil & Gas (UK) AS ("Agora") for the farm-out of UK East Irish Sea Blocks 113/26b and 113/27c, which contain the Conan and Doyle prospects and in which Serica presently holds a 100% interest. An exploration well on the Conan prospect, 70% funded by Agora, is planned to be drilled in the second quarter of 2010 to a depth of approximately 5,000 feet. In return for this funding, Agora will earn a 35% interest in the blocks. Serica will retain a 65% interest and operatorship of the blocks.

In February 2010 Serica announced that it has secured the use of the Ensco 80 jack-up drilling rig for the exploration well on the Conan prospect.

GROUP PROVED PLUS PROBABLE RESERVES – UNAUDITED

	Western Europe		South East Asia		Total		
	Oil	**Gas**	**Oil**	**Gas**	**Oil**	**Gas**	**Oil & gas**
	mmbbl	**bcf**	**mmbbl**	**bcf**	**mmbbl**	**bcf**	**mmboe**
At 1 January 2009	2.4	38.7	5.8	66.4	8.2	105.1	28.5
Disposals	–	–	(2.8)	(32.7)	(2.8)	(32.7)	(9.5)
Revisions	–	–	–	(0.2)	–	(0.2)	(0.1)
Production	–	–	(0.1)	(0.8)	(0.1)	(0.8)	(0.3)
At 31 December 2009	**2.4**	**38.7**	**2.9**	**32.7**	**5.3**	**71.4**	**18.6**
Proved developed	–	–	1.7	18.7	1.7	18.7	5.6
Proved undeveloped	1.0	17.0	-	-	1.0	17.0	3.9
Probable developed	–	–	1.2	14.0	1.2	14.0	4.1
Probable undeveloped	1.4	21.7	–	-	1.4	21.7	5.0
At 31 December 2009	**2.4**	**38.7**	**2.9**	**32.7**	**5.3**	**71.4**	**18.6**

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 2009 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.

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 6.0 mmboe as at 31 December 2009 (2008: 12.4 mmboe). This was calculated in 2009 using a Kambuna forecast condensate price assumption of Brent – 0.18% (2008: Brent – 0.18%) 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)
boepd	barrels of oil equivalent per day
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
mm bbl	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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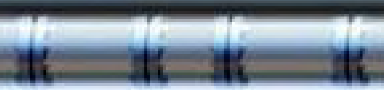

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