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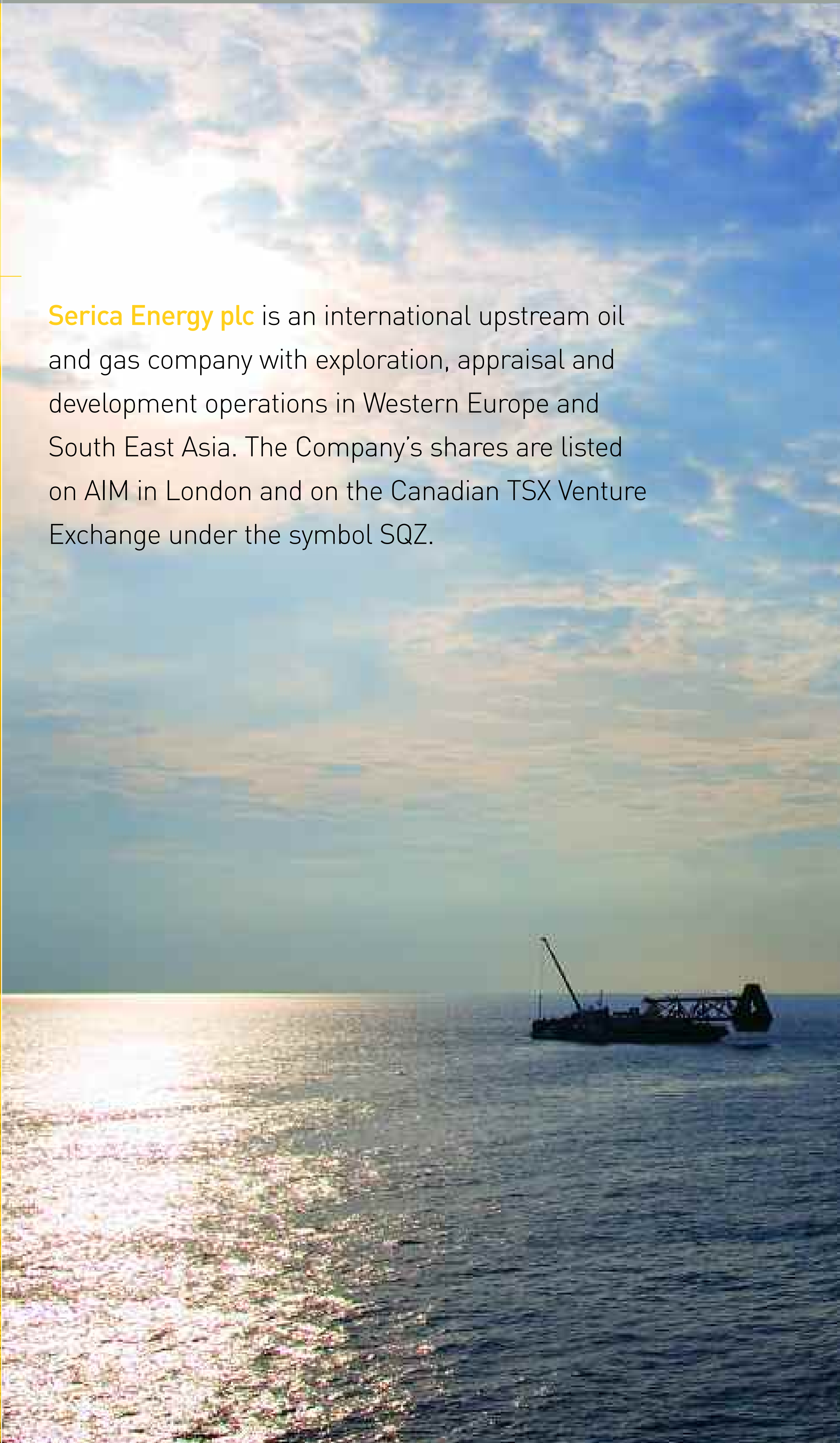
SERICA ENERGY

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.



Kambuna field, offshore North Sumatra, Indonesia.
In the morning of 5 February 2008 the jack-up drilling rig GSF136 was preparing to lift the Kambuna wellhead support (production platform) from the waiting barge and lower it into position on the seabed directly over the Kambuna #2 well. The rig then drilled the #3 and #4 development wells through the legs of the support.

HIGHLIGHTS

Operational
- Two successful appraisal wells drilled in the Columbus field offshore UK
- Production platform installed in the Kambuna field offshore Sumatra
- Formal award of new licences in Indonesia, Vietnam and Norway
- 15% increase in Kambuna proven plus probable ("2P") reserves
- Kambuna 2P reserves of 29.7 mmboe (100% basis)
- 3D seismic survey completed in Vietnam
- Increased working interest in Kutai PSC, Indonesia, from 52.5% to 78%

Financial
- US$100 million debt facility completed in November
- Year end net current assets of US$31.3 million
- Received US$49 million on 7 January 2008 through equity placing
- Excellent Kambuna gas sales terms agreed
- NPV10 of Serica 2P Kambuna reserves estimated at US$145 million
  (As at 31 December 2007 at constant prices and costs, post tax)

Forward Programme
- Kambuna development wells currently being drilled
- Kambuna pipeline to be installed 3Q/4Q 2008
- First Kambuna production expected in December 2008
- Two Bream field appraisal wells in Norway to be drilled in 2H 2008
- Vietnam exploration well to be drilled in 2H 2008
- Site surveys to be carried out in 1H 2008 for Ireland and Chablis wells
- Planning Chablis well in 2H 2008

FINANCIAL SUMMARY FOR 2007

Notes:

Company net oil and gas reserves (working interest basis)	**Proven and probable 2007**	Proven and probable 2006
At 31 December		
Gas – million cubic feet	**77,600**	56,100
Condensate & LPG – barrels	**6,410,000**	7,506,000
Total – barrels of oil equivalent[1]	**19,343,000**	16,856,000

[1] Gas converted at 6,000 standard cubic feet per barrel of oil equivalent

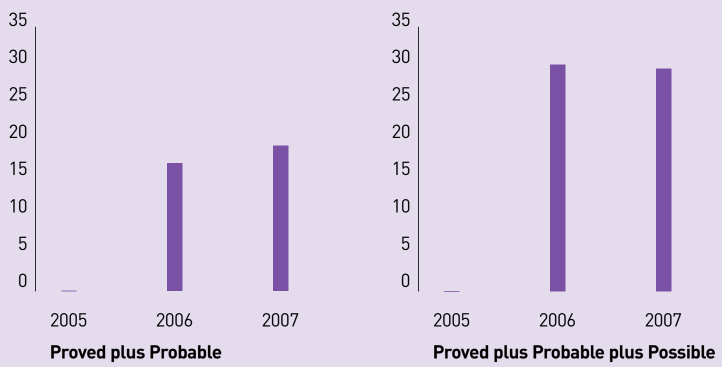
On a net entitlement basis (Canadian reporting standard NI 51-101) the total barrels of oil equivalent for 2007 was 13,865,000 (2006: 12,647,000)

Financial position		
Market capitalisation	**US$281 million**	US$324 million
Net current assets	**US$31 million**	US$84 million
Cash	**US$23 million**	US$77 million
Number of shares in issue	**151,647,957**	150,537,956
Number of shares fully diluted	**159,437,456**	157,029,789

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

Net working interest reserves – million barrels of oil equivalent

Reserves are solely those attributable to Serica's interest in the Kambuna field in Indonesia



LICENCE INTERESTS

The following table summarises the Company's worldwide interests.

Block(s)	Description	Role	%	Location
United Kingdom				
14/15a	Exploration	Operator	50%	Central North Sea
23/16f	Columbus appraisal	Operator	50%	Central North Sea
23/16g	Exploration	Operator	50%	Central North Sea
48/16b	Chablis appraisal	Operator	100%	Southern Gas basin
48/17d	Chablis appraisal	Operator	100%	Southern Gas basin
54/1b	Oak discovery	Operator	50%	Southern Gas basin
113/26b	Exploration	Operator	100%	East Irish Sea
113/27b (part)	Exploration	Operator	100%	East Irish Sea
Ireland				
27/4	Exploration	Operator	100%	Slyne Basin
27/5 (part)	Exploration	Operator	100%	Slyne Basin
27/9	Exploration	Operator	100%	Slyne Basin
Norway				
406	Exploration	Partner	20%	Egersund Basin
407	Bream appraisal	Partner	20%	Egersund 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	Operator	65%	Offshore North Sumatra
Biliton PSC	Exploration	Operator	45%	Offshore Java Sea
Kutai PSC	Exploration	Operator	78%	Kutai basin
Vietnam				
Block 06/94 PSC	Exploration	Partner	33.3%	Nam Con Son Basin

In Western Europe, governments typically grant exclusive licences to extract and produce hydrocarbons under tax and royalty terms that may be varied from time to time. In South East Asia the Company's interests are held under Production Sharing Contracts ("PSC") under which the fiscal terms are generally fixed for the term of the PSC and take the form of a government production share.

With the production platform now successfully installed on the Kambuna field offshore North Sumatra we are expecting gas and condensate sales to commence at the end of 2008, bringing the first significant cash flow to Serica.

Tony Craven Walker
Chairman

CHAIRMAN'S REPORT

Dear Shareholder

During 2007 much progress was achieved in the development of our reserves in Indonesia and the appraisal of our Columbus discovery in the North Sea.

With the production platform now successfully installed on the Kambuna field offshore North Sumatra we are expecting gas and condensate sales to commence at the end of 2008, bringing the first significant cash flow to Serica. As stated in the Chief Executive's Report, the level of reserves which we carry for this field has been increased.

In the North Sea, two successful appraisal wells drilled in late September and October on our Columbus discovery have demonstrated the commerciality of this gas condensate field and bring it nearer to production. Reserves from this field will be booked once a development plan for the field has been approved.

In addition to this growth in reserves, the Company has considerable exposure to several significant exploration wells, some of which we hope to drill this year. These wells result from extensive seismic work conducted during the year over our blocks in Indonesia, Vietnam, the UK North Sea, Spain and Ireland.

Of course we do not expect to find oil or gas with all of our wells. At the turn of the year we drilled our first two wells in the Biliton block in Indonesia. Neither of these wells encountered hydrocarbons and we have written off the costs incurred to-date on this block, amounting to US$8.9 million. Before drilling the wells we decided to farm-out part of our interest to an industry partner to substantially reduce the financial risk whilst retaining a large share of the upside potential. As a result the wells were drilled at a very low cost to Serica.

The farm out of certain of our interests, such as Biliton, where we perceive Serica's exposure to be too high, is an important part of our strategy to manage the funds available to the Company and enhance returns for shareholders. In the current high cost environment, therefore, we shall continue with this approach where appropriate.

The Company is well funded to meet its forward programme. The successful raising of approximately US$52 million in new equity before expenses increased our net cash balances at the start of 2008 to over US$70 million. With access also to a US$100 million debt facility primarily for field development, the Company is well placed to continue with its exploration activities and add to the growth of our oil and gas reserves.

It is clearly important that this growth is translated into growth in the Company's share price. The Board is conscious that the recent volatility in the market for our shares, may not be giving a clear picture for shareholders. It is the Board's view that this volatility is caused partly by the limited liquidity for our shares in the market place. We operate in two markets, Toronto and London. The different nature of these markets makes inter-trading more complex, thus reducing liquidity still further.

We shall be seeking ways to improve the market liquidity for our shares, and hence provide a better platform for shareholders, whilst also looking for opportunities to broaden the Company's asset base through acquisition and divestment. In this way we would hope to achieve a share price more in line with the Company's underlying performance whilst also maintaining our corporate objective to reduce risk and increase overall opportunity.

As a final note, I would like to welcome Jonathan Cartwright, who joins the Board as a non-executive director on 27 March 2008. Jonathan brings considerable financial experience to the Company and we look forward to working with him in our task of building value for shareholders. He is Finance Director of Caledonia Investments, one of our major shareholders, and is a member of the board of Bristow Group who are one of the world's leading providers of helicopter services to the offshore oil and gas industry.

With a strong and experienced Board, field developments and exploration prospects in two distinct areas, most of which we operate, and with sound finances Serica is ideally placed in the sector. It is our objective to build on this position during 2008 and I have every expectation that we shall be more than successful in these efforts.

Tony Craven Walker

Tony Craven Walker
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

During the course of 2007, despite the industry-wide shortage of seismic crews and drilling rigs, we have been able to make progress in both Western Europe and South East Asia and, as a result, have taken significant steps towards the development of our discoveries and the establishment of Serica as an oil and gas producer in both regions.

Serica is the operator of the Kambuna gas-condensate field offshore North Sumatra, Indonesia, and holds a 65% working interest. Following the acquisition and interpretation of a 3D seismic survey in the field, an independent Reserves Evaluation by RPS Energy ("RPS") has estimated that the gross Proved and Probable Reserves for the field are 29.7 million barrels of oil equivalent ("mmboe"). This represents an increase of over 15% in the Proved and Probable Kambuna Reserves, compared to the figure of 25.7 mmboe estimated by RPS at the end of 2006, before the 3D seismic data was available. This new reserves estimate excludes any additional reserves that may ultimately be proved to exist in an area immediately to the north of the Kambuna field that has been identified on the 3D seismic data as potentially gas-bearing.

Based on these revised reserve estimates, RPS has estimated the net present value of Serica's future revenue from the Kambuna field at 31 December 2007 at a 10% discount factor. Based on constant oil prices and costs, an initial gas sales price of US$4.50 per mmBtu and a fixed condensate price of US$93.51 per bbl, RPS estimates the net present value to Serica of the proved and probable Kambuna reserves, after all Indonesian taxes, to be US$144.7 million. This figure does not take into account the higher gas price that we expect to be achieved for the uncontracted gas, as described below.

The first sales contract will be with the Indonesian State Electricity Company, PLN, which will purchase 28 mmscfd of gas at an initial price of US$4.50 per mmBtu (approximately US$5.40 per mcf). Following a tender process, several offers for a further 12 mmscfd of gas have been received at initial prices between US$5.20 and US$5.80 per mmBtu (approximately US$6.25 to US$7.00 per mcf). These tenders have been subject to commercial evaluation and we expect an award to be made shortly. Both of these sales contracts will include take or pay provisions and gas price escalation at a rate of 3% per annum.

These contracts account for a total of 40 mmscfd and leave a further 10 mmscfd of gas to be contracted once the development wells have been drilled and an updated reservoir model has been presented to the Indonesian regulator to demonstrate the expected field production capacity of 50 mmscfd and around 5,000 bpd of condensate.

The excellent prices achieved for our gas reflect the fact that gas for the Indonesian domestic market is in short supply, resulting in the greater use of oil as fuel for electricity generation. Given the present level of oil prices, the cost of generation has risen significantly and electricity supply has been restricted.

In January 2008 we installed the Kambuna production platform in the field and commenced development drilling, using the GSF136 jack-up rig. The platform will initially support three Kambuna production wells and has the capacity to support at least one additional well. The existing Kambuna No.2 well, that we drilled and suspended in 2005, is now being recompleted for production and we are currently drilling two further development wells. Kambuna No.3 will be a deviated production well that will enter the reservoir on the crest of the structure close to the original discovery well. Kambuna No.4 will be a deviated production well that will enter the reservoir in the southern area of the field. Additionally, this well will test whether the gas-water contact (not found in the existing wells) may be significantly lower than the lowest known gas encountered in Kambuna No.2. If this is the case, the Kambuna field reserves could be subject to further upward revision.

In Western Europe, Serica holds interests in two potential near-term field developments. We hold a 50% interest as operator of UK North Sea Block 23/16f, in which we drilled the Columbus gas-condensate discovery in 2006 and a 20% interest in the Bream oil field, offshore Norway. We also hold a 100% interest in the Chablis gas field appraisal project in the UK southern North Sea.

During 2007 we drilled two Columbus appraisal wells, 23/16f 12 and 23/16f 12z, that successfully delineated the Columbus field within Block 23/16f. Development studies have indicated that the field could be produced via a subsea tie-back to a host platform and we believe that production from Columbus could start in late 2010. We have already carried out an engineering study with BP regarding a potential tie-back of Columbus to BP's Lomond field, which lies immediately to the south of the Columbus field and a further engineering study is being conducted regarding offtake via BP's ETAP gas and oil transportation system.

It has been considered possible that the Columbus field may extend to the south into Block 23/21, operated by BG Group. To demonstrate whether this extension exists, an appraisal well is required in Block 23/21, but the timing of this well is not clear. The 23/16f partners, having already drilled three wells in the Columbus field, have therefore decided to prepare alternative plans to develop the field without the involvement of the Block 23/21 group at this stage.

It has taken some time to address the environmental, logistical and commercial issues associated with drilling in Serica's near-shore UK Southern Gas Basin Block 48/16b, which contains the Chablis gas discovery. We will shortly be carrying out a site survey for the appraisal well to be drilled in the Chablis field.

In Norway, our operator, BG Group, is planning to drill an appraisal well in the Bream oil field in the second half of 2008, comprising a vertical well followed by a horizontal sidetrack to demonstrate well productivity. The gross best estimate Contingent Resources of the Bream field have been estimated to lie in the range of 22 to 120 million barrels of oil. The appraisal well is designed to narrow this range and to provide the data necessary to demonstrate field commerciality.

In addition to our development and appraisal projects, we shall be continuing exploration work in several areas during the coming year.

In Ireland, we are planning to carry out a site survey in preparation for drilling an exploration well off the west coast in Licence PEL 01/06, in which Serica holds a 100% interest. We have identified four large gas prospects in the licence with estimated total unrisked Prospective Resources ranging from 800 bcf to 6 tcf with a best estimate of 3 tcf. These would be attractive prospects anywhere in the world, but have even greater significance in Ireland because the country imports nearly 90% of its energy supplies and oil makes up the majority of the imports. A rig has been identified for drilling this summer and we are currently seeking a farminee to share the costs and risks of the drilling programme.

In Vietnam, evaluation of the new 3D seismic data has confirmed the prospectivity of our PSC 06/94 and a well is planned in the second half of 2008. Serica holds a 33% interest in the PSC.

In Indonesia, in the Biliton PSC, offshore Java, we were naturally disappointed that the two exploration wells drilled at the end of 2007 were unsuccessful, but we had always viewed the prospects as having a high exploration risk and had therefore sought a farminee. We were successful in attracting a farminee to drill both wells at little cost to Serica, and we now hold a 45% interest in the PSC and remain the operator. In the Kutai PSC we are interpreting the existing 3D seismic data covering an area of over 2,000 square kilometres and can already see a large number of prospective features within the PSC, some of which should become drilling targets.

In Spain, we farmed out a 25% interest in our Spanish exploration Permits to Beach Petroleum, an Australian E&P company prior to undertaking a seismic programme. The 315 kilometre 2D seismic programme has been carried out and the quality of the data acquired is excellent. Interpretation of the data is underway and it appears likely that one or more prospects will be identified on the Permits. We have until November 2008 to elect to drill a well and thereby extend the life of the Permits, in which Serica is the operator and holds a 75% interest.

Serica set out in 2007 to confirm the potential of the Columbus discovery and to advance the development of the Kambuna field, while evaluating the prospectivity of the new licences awarded to the Company in 2006 and early 2007. We succeeded in all these areas – successful appraisal of Columbus, gas sales terms agreed for Kambuna, exploration and appraisal drilling planned in Norway, UK, Ireland and Vietnam. With first production expected from the Kambuna field in December and with significant exploration and appraisal wells to be drilled, 2008 promises to be a year in which Serica further demonstrates the underlying value of its assets.

Paul Ellis

Paul Ellis
Chief Executive Officer

Spain – seismic survey
In 2007 Serica carried out a seismic survey in its Permits in northern Spain. The photograph shows a portable rig drilling the 10 metre deep shot holes in which dynamite was fired to provide the acoustic energy source for the survey. Sound waves reflected from geological strata up to five km deep are processed to give seismic sections which are then interpreted to provide subsurface maps of the prospective horizons.

REVIEW OF OPERATIONS – WESTERN EUROPE

Overview

In Western Europe Serica holds offshore exploration, appraisal and development licences in the UK, Norway and Ireland and exploration Permits onshore Spain.

In the UK Central North Sea, following Serica's discovery of the Columbus gas-condensate field in 2006, the Company drilled two successful appraisal wells in late 2007 and confirmed that the field has commercial potential. Studies are now being undertaken to determine the optimum development scheme and export route for Columbus. In the UK Southern North Sea, Serica is planning to drill a well to appraise the Chablis discovery and is assessing the potential for the commercial development of the Company's Oak discovery.

Offshore Norway, in 2007 Serica was awarded a 20% interest in the Bream oil field and adjacent exploration acreage and will be drilling two appraisal wells in the field in 2008 with a view to submitting a field development proposal to the Norwegian authorities in 2009. Further oil exploration prospects and leads have been identified and these will be further evaluated with a 3D seismic survey in 2008 and drilling in 2009.

Off the west coast of Ireland Serica has identified several large gas prospects in its Slyne Basin acreage and will be carrying out the required offshore site surveys in the summer of 2008 and drilling one or two exploration wells in the summer of 2009. Operations in this area of the Atlantic are restricted to the summer months because of the severe environmental conditions experienced in winter.

In northern Spain the Company has completed a 2D seismic survey in its onshore Permits in the foothills of the Pyrenees. Several prospects and leads have been mapped and Serica is now seeking a farminee to share the risk of the exploration drilling programme.

UNITED KINGDOM

Columbus Discovery - Block 23/16f

This block covers an area of approximately 52 square kilometres in the Central North Sea. Serica operates Block 23/16f and holds a 50% interest in the Licence. In December 2007 Serica relinquished the adjacent part-blocks 23/16e and 23/17b as no prospects of material size could be identified.

Following Serica's December 2006 Columbus discovery well 23/16f-11, appraisal drilling commenced in the third quarter of 2007. Two Columbus appraisal wells, 23/16f-12 and 23/16f-12z, were drilled and both were successful.

Well 23/16f-12 was drilled as a vertical well approximately three kilometres north of the Columbus discovery well and encountered gas/condensate-bearing Paleocene sands at a higher elevation than those tested in well 23/16f-11. Reservoir pressure measurements indicated that these sands are separate to those discovered in well 23/16f 11 and the full extent of this new accumulation is not yet known. The net pay sand encountered in the well was approximately 40 vertical feet.

To further evaluate the Columbus discovery, the 23/16f-12 well was then sidetracked to a bottom-hole location approximately 2.2 kilometres north of the Columbus discovery well and encountered gas/condensate-bearing Paleocene sands similar to those found in 23/16f-11. Evaluation of down-hole pressure data indicated that the sands encountered in the sidetrack are in pressure communication with those in the discovery well. The net pay sand in the sidetrack was approximately 70 vertical feet, compared with 56 vertical feet in 23/16f-11. The sidetrack well 23/16f-12z has been suspended for potential use in the development of the Columbus field.

The successful outcome of the two new wells supports the commercial development of Columbus and data from these wells is being used to advance field development studies. The Columbus field lies in close proximity to existing production infrastructure, providing the potential to commence production as soon as throughput agreements have been reached and the development wells can be tied-in.

It is likely that initial field development will be based around horizontal or high-angle production wells, tied back to a host production platform. Serica is currently studying options including a possible tie-back to the producing Lomond field, which lies about six kilometres from the Columbus discovery well. At the host platform, the gas and condensate will be separated and processed to export pipeline specifications.

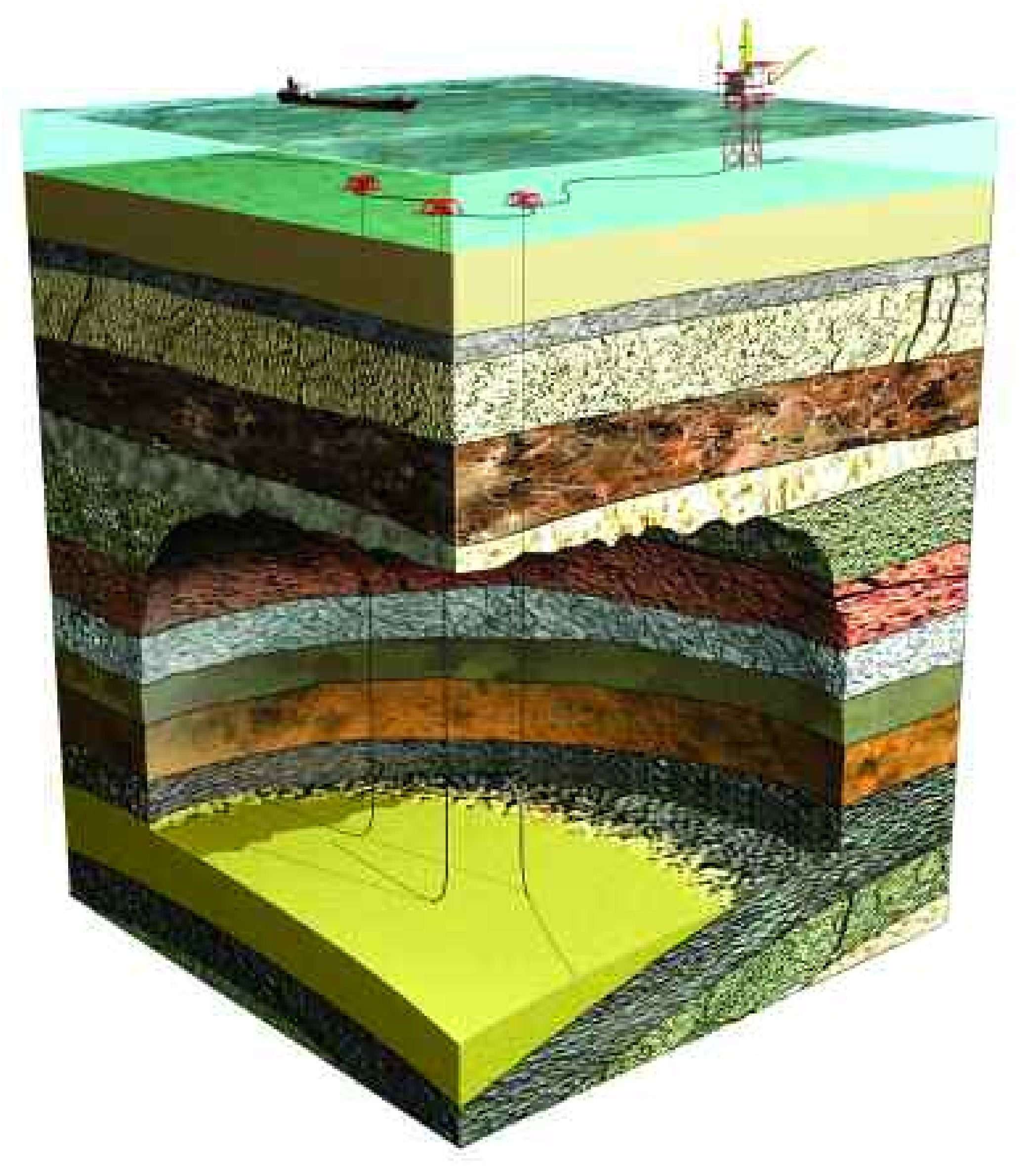
Last year, we reported best estimate Columbus Contingent Resources net to Serica of 8.4 mmboe, on the basis of our expected interests of 25% in Block 23/16f and 25% in part of Block 23/21, subject to completion of an acreage exchange with BG Group. This agreement was not completed and, as a result, Serica retained its original 50% interest in 23/16f and expects that its net Contingent Resources in Columbus will be greater than those reported last year, although the studies to integrate data from the three wells in the field with a newly acquired 3D seismic survey have not yet been completed.

Central North Sea - Block 23/16g

Serica has a 50% interest in this 7.4 square kilometre Central North Sea block and is the operator. The block contains a Paleocene sand prospect called Livingstone, similar to and on trend with the Columbus discovery in Serica's adjacent Block 23/16f to the south.

A new 3D seismic data set has recently been acquired covering both blocks and this data is being integrated with the new Columbus well data in order to select the best location in which to test this gas-condensate prospect. If successful, a Livingstone discovery well could potentially be used for production and tied in to the Columbus development.

Columbus field – cutaway diagram illustrating one development concept



Columbus may be developed with up to three subsea wells, drilled horizontally through the reservoir as shown in this illustration, which has been cut away to show the path through the Earth taken by each well. Horizontal well completions provide high productivity and longer water-free life. The wells will be connected by a pipeline on the seabed to an existing host production platform.

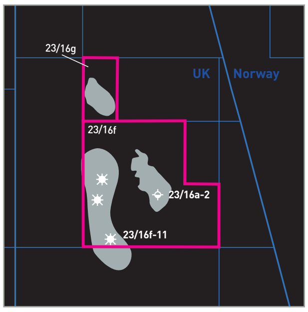
Columbus field

Serica licences

Oil show

Gas/cond. well

Scale: 5 KM



UNITED KINGDOM (continued)

Central North Sea – Block 14/15a

This block covers an area of approximately 108 square kilometres in the Central North Sea. Serica is the block operator and has a 50% interest. Several leads have been identified at Upper Jurassic, Lower Cretaceous and Paleocene levels within this prospective part of the Outer Moray Firth Basin. The work programme in 2007 included the reprocessing of available 3D seismic data, which is scheduled to complete in the first quarter of 2008 with the objective of confirming prospects that are ready for drilling.

Chablis Discovery Area – Blocks 48/16b and 48/17d

These contiguous blocks cover a total area of 88 square kilometres in the Southern North Sea. Serica is the operator and holds an interest of 100% in both blocks. Block 48/16b contains the undeveloped Chablis discovery, drilled in 2001 by ConocoPhillips. Block 48/17b was awarded to Serica in the UK 24th Offshore Licensing Round and may potentially contain part of the Chablis accumulation.

The issues concerned with drilling in the shallow water near-shore Chablis field area have mostly been resolved and Serica will shortly carry out a site survey in preparation for drilling a potential appraisal well later in the year.

Oak Discovery – Block 54/1b

Block 54/1b covers an area of 106 square kilometres in the Southern Gas Basin. Serica is operator of the block and holds a 50% interest.

Well 54/1b-6 was drilled in the fourth quarter 2006 and encountered a gas-bearing Leman sandstone reservoir that produced at a stabilised flow rate of approximately 10 mmscfd during a drill-stem test. However, subsequent laboratory analysis of gas samples taken during the test indicated that a significant proportion of the gas is made up of inert components – just over 50% of the gas was found to be carbon dioxide and nitrogen.

There are several fields to the north and east of the Oak field with similar gas compositions, several of them in Dutch waters where a new operator is studying the exploitation of such fields by installing offshore gas treatment to remove the inert gases and then transport the hydrocarbons for sale in the Netherlands through the existing extensive offshore pipeline system. The potential is speculative but, during 2008, Serica plans to participate in these studies in order to determine whether commercial development of Oak may ultimately be feasible.

Chablis field with superimposed Saharan dune field

The illustration shows a modern-day Saharan dune field super-imposed on the Chablis gas field area. The gas bearing sands discovered in Chablis were deposited 265 million years ago in a desert setting similar to the Sahara today. Successful appraisal drilling depends on encountering productive dune bodies rather than the less productive inter-dune areas.

Chablis field

Serica licences

Gas well

Dry hole

Scale: 1 KM

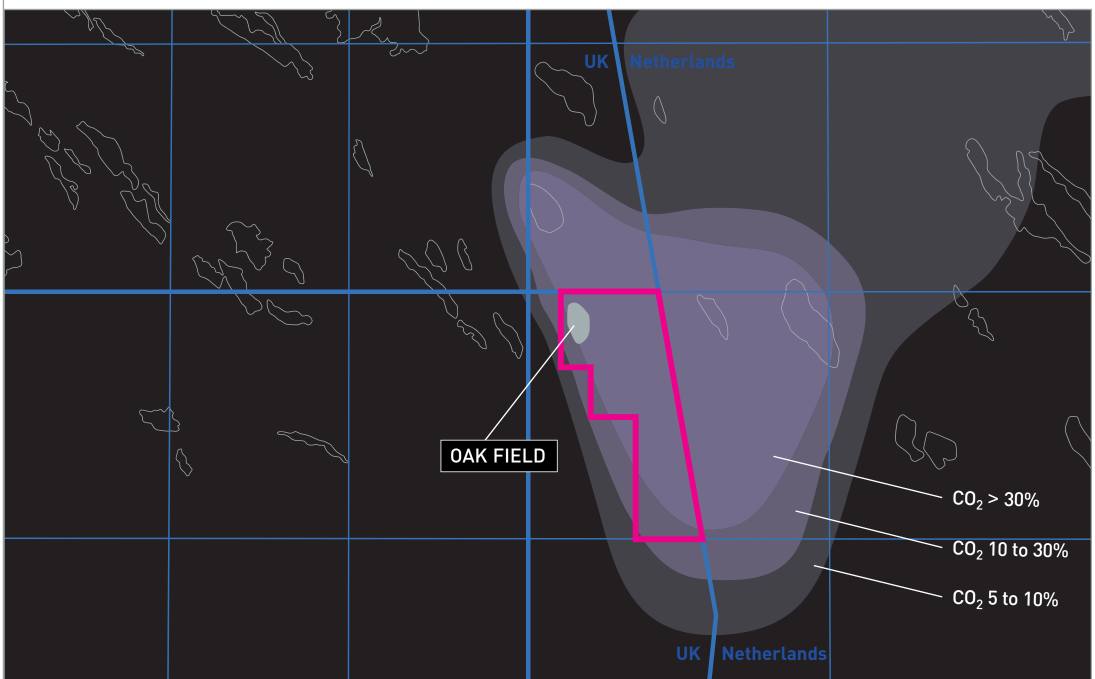
Oak discovery and adjacent fields showing areas of high CO_2 content

The Oak gas field was discovered by Serica in 2006 but was found to contain around 50% inert gases. The map shows that other fields in the UK and Dutch sectors also exhibit a high inert gas content and studies are underway to investigate their commercial potential.

Oak discovery

Serica licences

Scale: 5 KM



UNITED KINGDOM (continued)

East Irish Sea – Blocks 113/26b and 113/27b (part)

These blocks cover an area of 145 square kilometres and lie immediately to the north of the Millom and Morecambe gas fields. The prospective reservoir is the Sherwood Sandstone of Triassic age that is also the producing reservoir in the Millom and Morecambe fields. Serica has identified a number of leads on these blocks and is carrying out a 3D seismic reprocessing project in order to confirm future exploration well locations.

Serica is the operator and has a 100% interest in the licence.

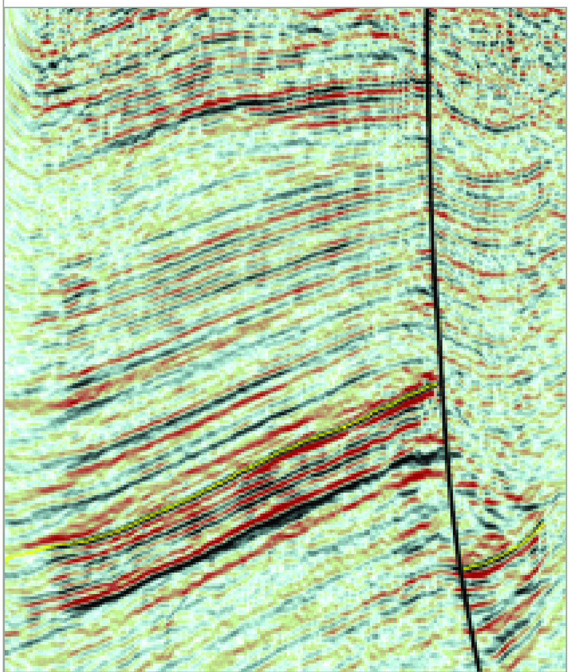
IRELAND

Slyne Basin – Blocks 27/4, 27/5 (west) and 27/9

Serica is the operator and holds a 100% interest in these blocks, which cover an area of 611 square kilometres in the Slyne Basin off the west coast of Ireland and lie 42 kilometres south of the Corrib gas field, currently being developed by Shell.

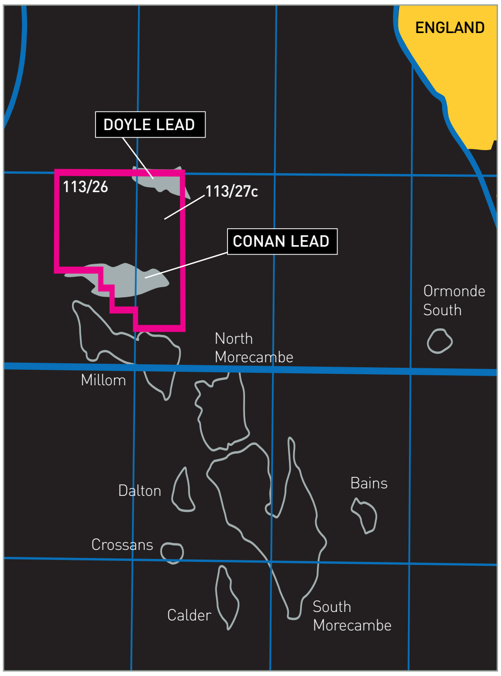
The blocks are covered by existing 3D seismic data that has now been reprocessed and has confirmed the presence of four significant gas prospects. An independent report by RPS Energy has estimated unrisked Prospective Resources net to Serica in the range of 800 bcf to 6 tcf with a best estimate of 3 tcf for the four prospects in total. Serica expects to drill the first of these prospects in the summer of 2008 and will soon be carrying out a site survey over the identified drilling targets.

Seismic section through the Doyle Lead



The illustration shows a east-west seismic line through the Doyle Lead in Block 113/27c. Work is underway to determine whether the bright seismic amplitudes seen across the crest of the structure could indicate a gas-filled reservoir, as is the case with some of the gas fields already proven in the East Irish Sea.

Serica prospects and nearby fields, East Irish Sea

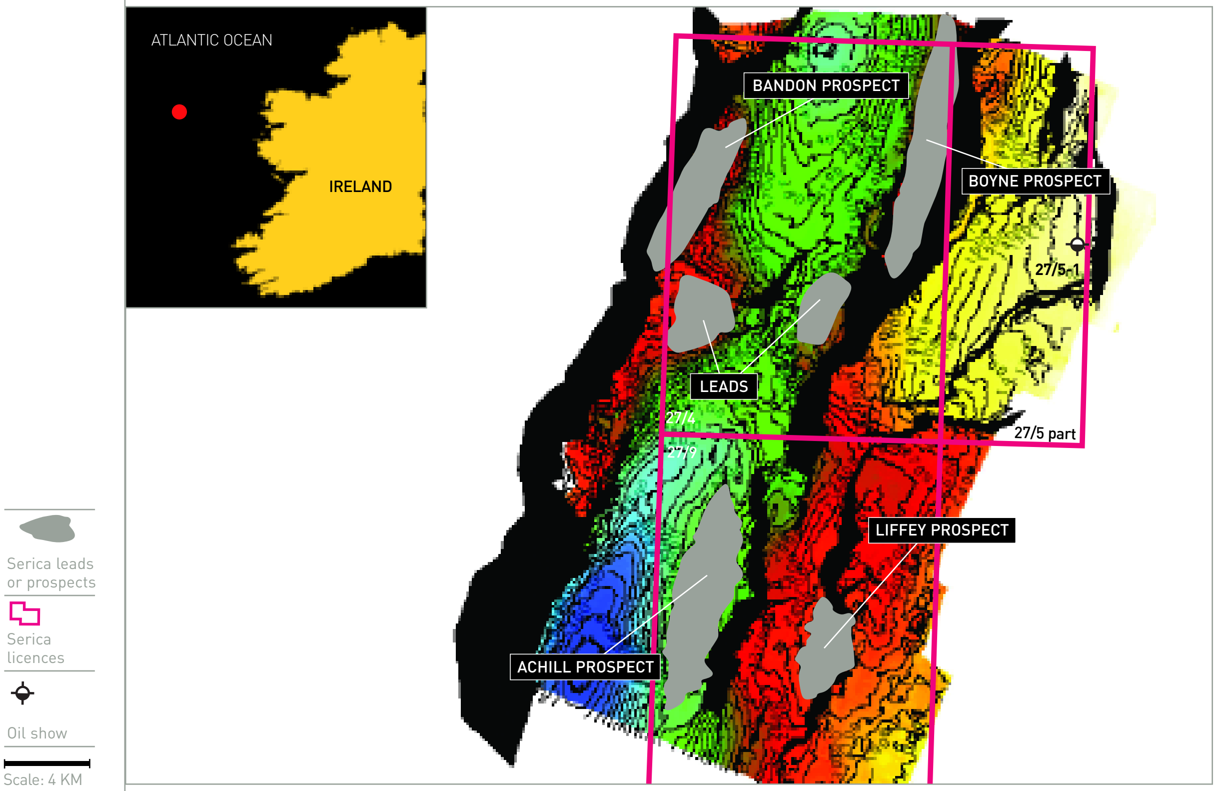


Serica leads or discoveries

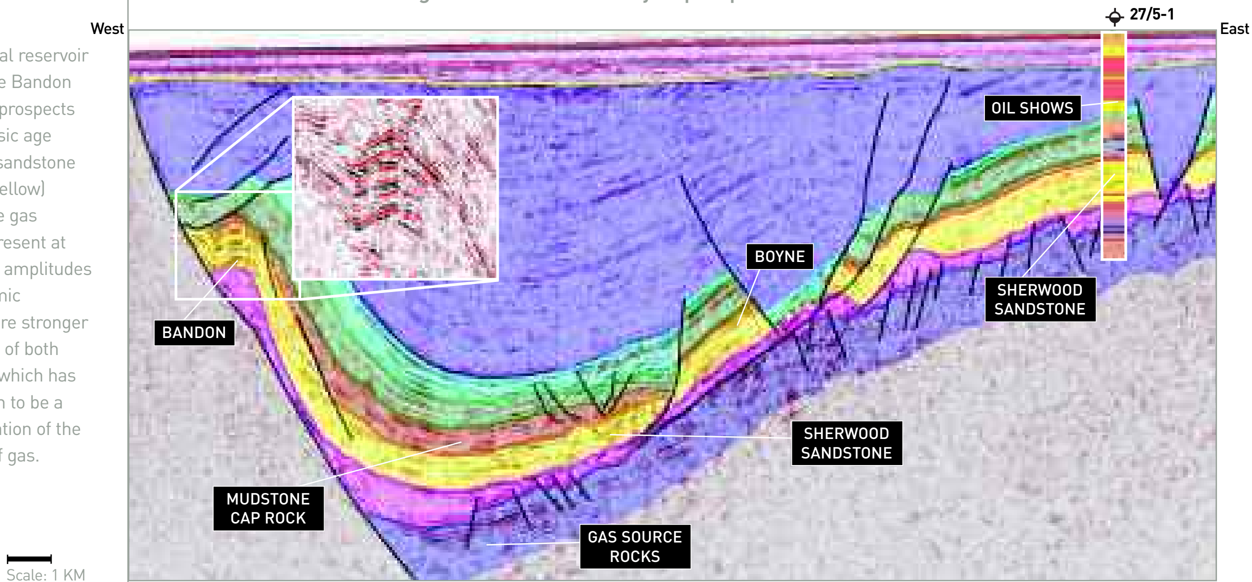
Serica licences

Scale: 5 KM

Map showing Serica's main prospects and leads in Ireland

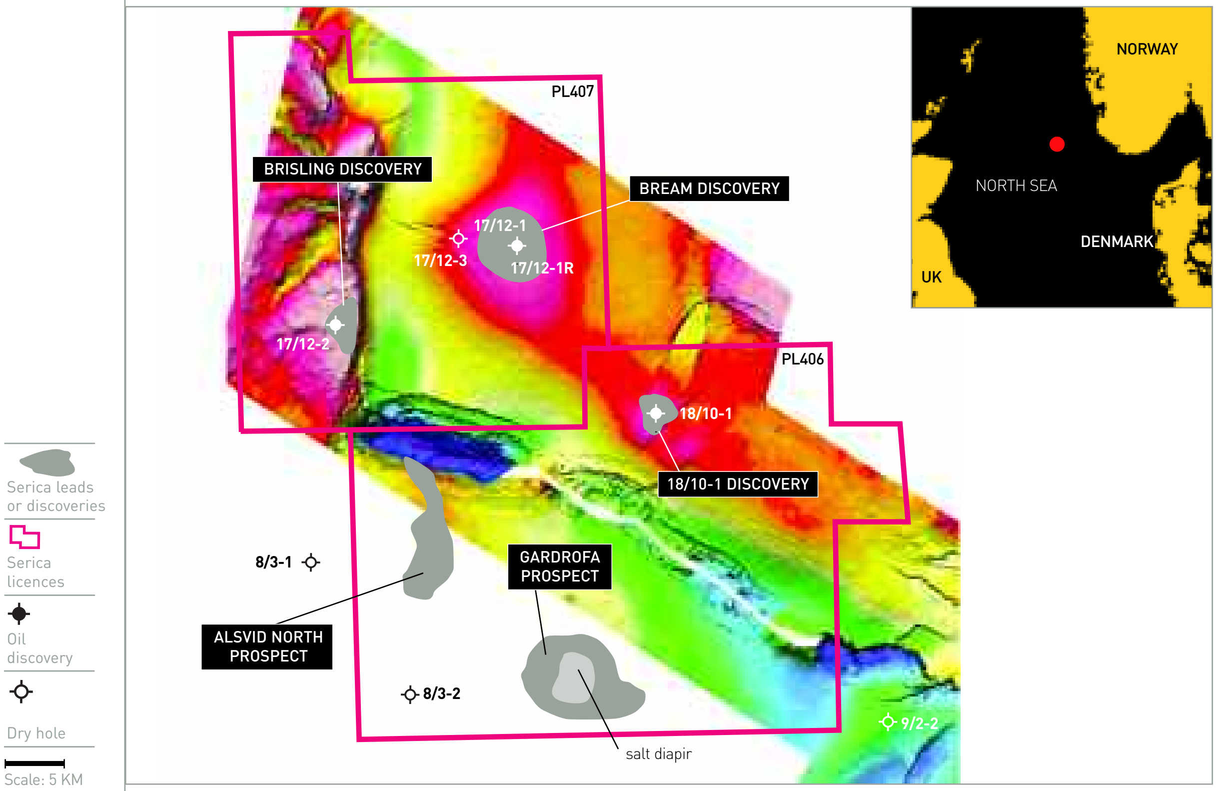


Seismic section through the Bandon and Boyne prospects



The principal reservoir target in the Bandon and Boyne prospects is the Triassic age Sherwood sandstone (shown in yellow) which is the gas reservoir present at Corrib. The amplitudes of the seismic reflectors are stronger at the crest of both prospects, which has been shown to be a likely indication of the presence of gas.

The Bream field and adjacent discoveries and prospects



NORWAY

The key to success in the Bream field and the neighbouring prospects is the application of horizontal well technology, which had not been developed in the early 1970s when the Bream discovery was made. The increased productivity of a horizontal well should be demonstrated when the Bream appraisal wells are drilled and tested in 2008.

Egersund Basin – Licences PL406 and PL407

Serica was awarded a 20% interest in both of these offshore licences in February 2007. The licences are contiguous and lie in the Egersund Basin, about 120 kilometres southwest of the port of Stavanger, Norway's fourth largest city.

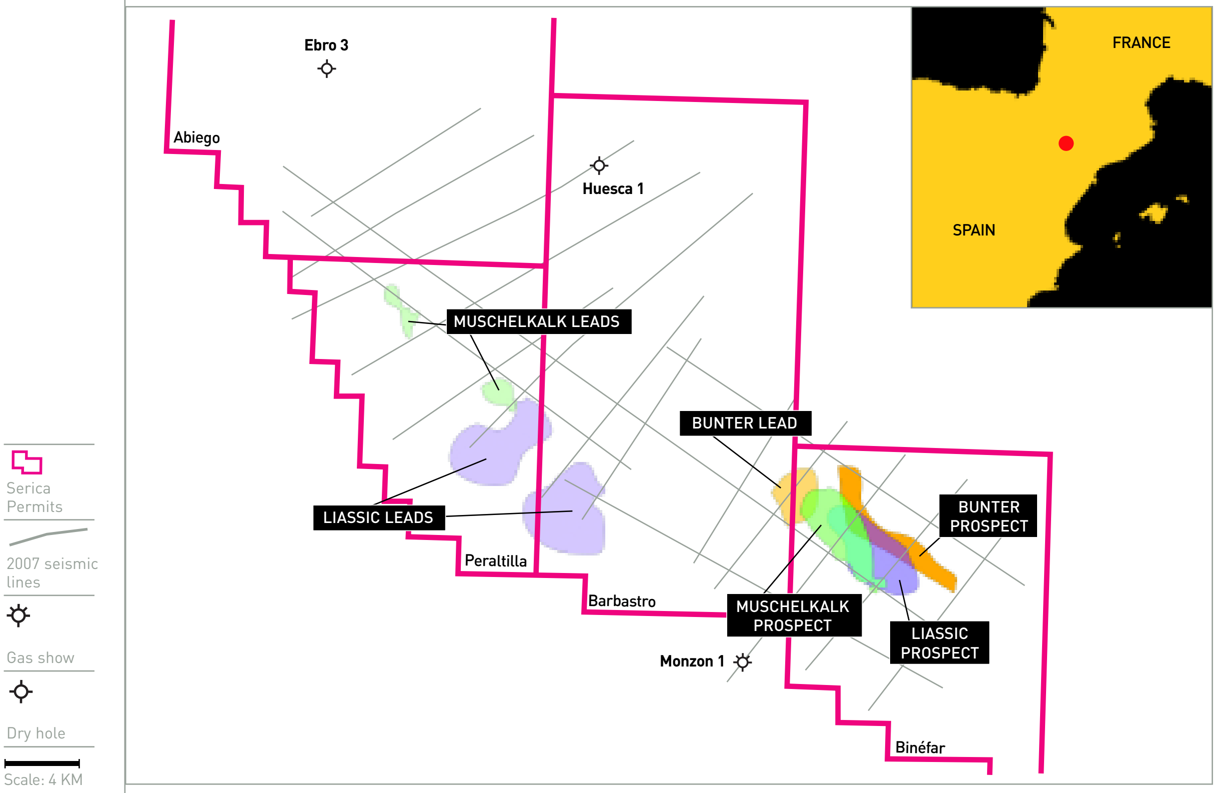
Licence PL406 covers an area of approximately 900 square kilometres and includes the 18/10-1 oil discovery well drilled in 1980, which was tested at 1,800 bopd. The licence contains exploration prospects that appear analogous to the undeveloped Bream oil field in Serica's Licence PL407, immediately to the north. Licence PL407, covers an area of approximately 725 square kilometres. It includes the 1972 Bream oil discovery and the 1973 Brisling oil discovery, which were tested at rates up to 1,000 bopd and 2,200 bopd respectively.

In the early seventies oil prices were around $3/bbl and this, combined with the technology available at the time, did not allow commercial development. The three discoveries remained undeveloped for over thirty years, since the Norwegian authorities did not make the area available for licensing again until 2006.

On the basis of the modern 3D seismic data now available covering the Bream and 18/10-1 discoveries, an independent report by RPS Energy has estimated that, using modern drilling and completion technology, including horizontal production wells, the gross Contingent Resources of the Bream field may lie within a range of 22 to 120 mmbbl, with a best estimate of 59 mmbbl. The 18/10-1 discovery is estimated to have gross Contingent Resources of 5 to 41 mmbbl, with a best estimate of 18 mm bbl. Serica's 20% share of these best estimate Contingent Resources would amount to a total of 15 mmbbl.

The operator of Licence PL407, BG Norge AS, is planning to drill vertical and horizontal appraisal wells in the Bream field in 2008, with a view to submitting a Plan of Development early in 2009. The operator of PL406, Premier Oil Norge AS, is planning to acquire a 500 km2 3D seismic survey early in 2008 to identify the best locations for exploration drilling in 2009. Any discovery made in PL406 could potentially be produced through facilities designed for the development of the Bream field.

Prospects and leads in the Spanish Permits



Serica carried out its 2007 seismic survey in Spain in an area cultivated with wheat, maize, vineyards and olive groves. Considerable care was taken to ensure the protection of the environment and this experience will be invaluable when the Company makes plans for drilling in the Permit areas.

SPAIN

The Company holds a 75% interest 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 and could potentially contain significant quantities of gas, which would find a ready market in Spain.

In 2007, Serica entered into a farm out agreement with Beach Petroleum Limited, under which Beach has earned a 25% interest in the Permits, with Serica retaining a 75% interest and operatorship. A 315 kilometre 2D seismic survey commenced in late 2007 and was completed in January 2008.

The data is of excellent quality, revealing deep features that can now be mapped with far more confidence than was possible previously and prospects are being identified. Due to the comprehensive nature of the environmental assessments required before drilling in this area, these have already been commissioned although a decision on drilling is not required until later this year.

Kambuna field – well testing
The Kambuna-2 development well has been completed and, in the early morning of 26 April 2008, the well was opened to flow. This initial "clean-up" flow is designed to allow the well to expel any water or drilling mud that may have permeated into the reservoir since the well was drilled and leave the well ready for production. At the time that the photograph was taken the well was producing around 33 million cubic feet of gas per day.

REVIEW OF OPERATIONS – SOUTH EAST ASIA

Overview

In South East Asia Serica holds Production Sharing Contracts ("PSC") in Indonesia and Vietnam.

The most important project in Serica's current portfolio is the development of the Kambuna field. During 2007, a drilling rig that was under contract to Serica suffered damage and was unable to drill the planned Kambuna development wells. A replacement rig was contracted and carried out the installation of the production platform and commenced drilling the development wells early in 2008.

Elsewhere in Indonesia, the Company drilled two exploration wells in the Biliton PSC. These were unsuccessful, but the bulk of the cost of these wells was carried by a farminee. Serica operates the Kutai PSC and is currently interpreting the 3D seismic data acquired by the previous operators of the area. The Company is also seeking new exploration acreage in the country.

In Vietnam, a new 3D seismic survey was carried out in Serica's Block 06/94 and a rig has been contracted to drill an exploration well in the PSC in 2008.

INDONESIA

Biliton PSC

The Biliton PSC covers an area of approximately 3,940 square kilometres in the Java Sea between the Indonesian islands of Java and Kalimantan. Serica is the operator of the PSC and originally held a 90% interest in the block.

In March 2007, Serica entered into a farm-out agreement under the terms of which Nations Petroleum has earned a 45% interest in the Biliton PSC by paying a contribution to Serica's back costs and bearing the majority of the costs of drilling the first two wells in the PSC. Serica now holds a 45% interest in the PSC and retains the operatorship. Between November 2007 and January 2008, using the GSF136 drilling rig, wildcat exploration wells Batara Ismaya No. 1 and Batara Indra North No. 1 were drilled, but neither well contained hydrocarbons and both were therefore plugged and abandoned.

Serica had always recognised that the high potential of Biliton came with a significant exploration risk, since the block is around 200 kilometres away from the established oil and gas fields of East Java. However, there is still an undrilled prospect on the block and Serica will be considering approaches to farm-in to the Biliton PSC.

INDONESIA (continued)

Glagah Kambuna TAC

The Glagah Kambuna Technical Assistance Contract ("TAC") covers an area of approximately 380 square kilometres and lies offshore North Sumatra. Serica has a 65% working interest and operates the TAC.

The TAC contains the undeveloped Glagah No.1 and Kambuna No.1 discovery wells and a successful appraisal well drilled by Serica in 2005, Kambuna No.2. Serica is progressing the development of the gas-condensate bearing Upper Belumai Sand reservoir of the Kambuna field and the first Plan of Development was approved by the state oil and gas company Pertamina in 2006.

A 3D seismic survey covering the Kambuna field was acquired in late 2006 and detailed processing and interpretation were carried out during 2007.

Using the results of the new 3D seismic data, consultants RPS Energy have carried out a new reserves report of the Kambuna field. This report estimates that the gross Proved plus Probable Reserves of the field are 119 bcf of sales gas and 9.9 mm bbl of condensate, a total of 29.7 mm boe, with an upside gross Proved plus Probable plus Possible Reserves of 45.6 mm boe. The present estimate of Proved plus Probable Reserves is 15% higher than the estimate prepared by RPS Energy last year, before the 3D survey results were available.

During 2007, the first phase of the development programme for the Kambuna gas/condensate field commenced: the field production platform was built and in the first quarter 2008 was positioned over the Kambuna No. 2 well and piled to the seabed. The GSF136 jack-up drilling rig is now drilling the Kambuna development wells No. 3 and No. 4 and will then complete all three wells for production. Onshore and offshore facilities and a 14-inch offshore pipeline will be installed later this year, with production targeted to commence by the end of 2008.

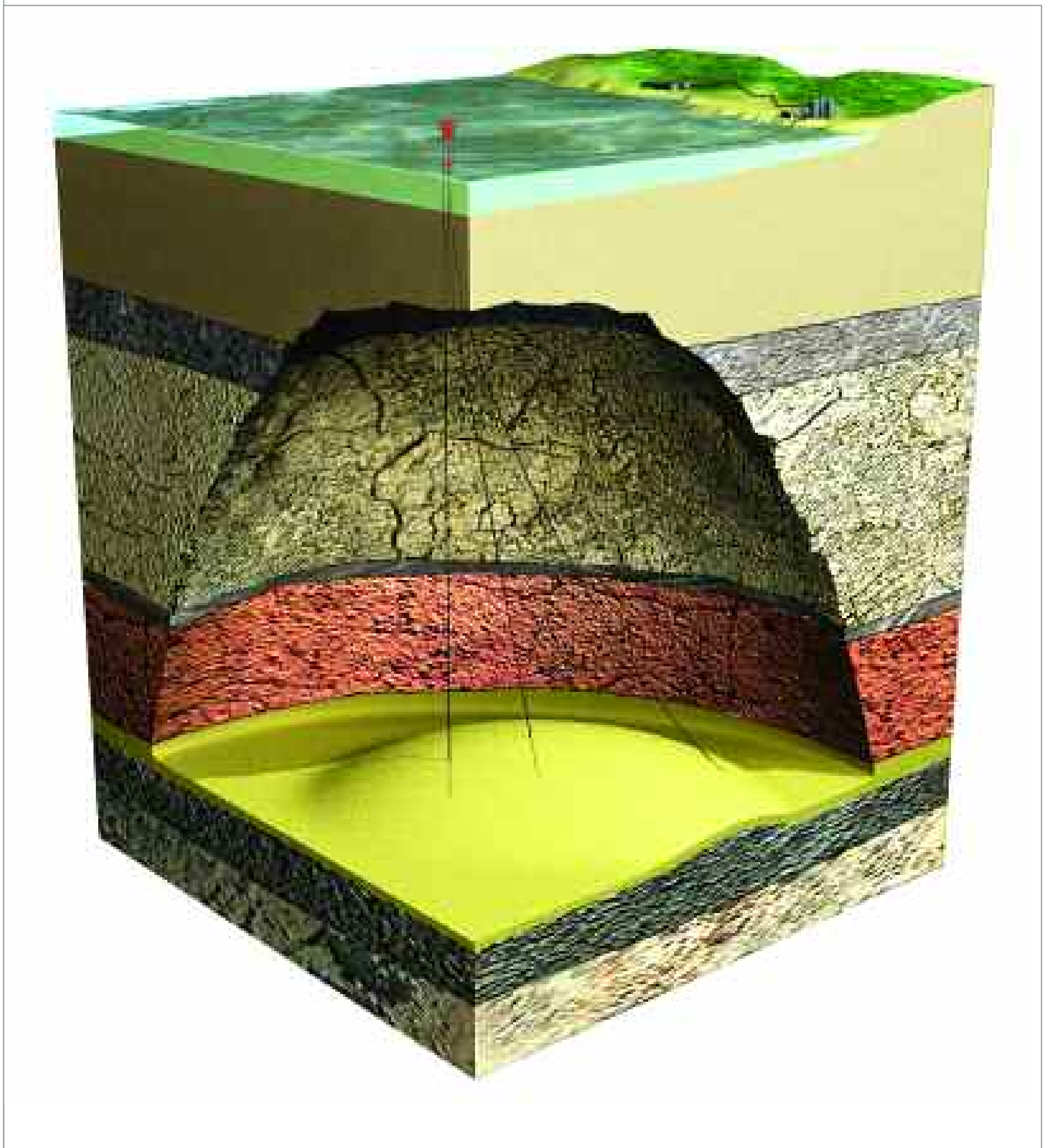
Following the agreement of terms for the sale of 28 mmscfd of gas to the Indonesian State electricity generation company Perusahan Listrik Negara ("PLN"), at an initial price of US$4.50 per million Btu (approximately US$5.40 per million cubic feet), offers for a further 12 mmscfd of gas have been received at prices between US$5.20 and US$5.80 per million Btu (approximately US$6.25 to US$7 per million cubic feet) escalating at 3% per annum for both agreements.

The sale of a further 10 mmscfd of gas is expected to be agreed later this year after a revised reservoir model is submitted to the authorities following the completion of the new Kambuna development wells currently being drilled. The Kambuna development wells are expected to produce at a total rate of 50 mmscfd, delivered at Pangkalan Brandan, about eight kilometres onshore and the site of a Pertamina gas plant and refinery. In addition to the gas, Serica will initially be marketing 4,000-5,000 barrels per day of condensate at a price close to that of crude oil.

Gas demand is strong in North Sumatra but supply from existing gas sources is insufficient and the main power station near Medan is reported to be burning around 25,000 barrels of fuel oil and diesel per day. Medan is the third largest city in Indonesia and the Kambuna production will go a long way to relieve the lack of gas-fuelled power in the area.

Kambuna field development

Kambuna field
The illustration has been cut away to show the paths of the Kambuna development wells from the production platform to the Belumai reservoir. The vertical well is Kambuna #2, drilled by Serica in 2005 in the north of the field. Deviated well #3 is being drilled into the crest of the structure and #4 is being drilled into the southern part.

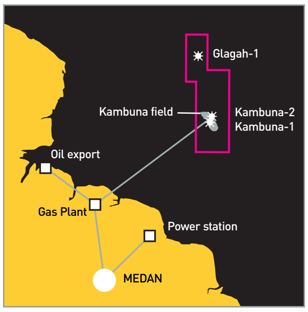


Kambuna field

Serica licences

Gas/cond. well

Scale: 20 KM



INDONESIA (continued)

Kutai PSC

The Kutai PSC in East Kalimantan was awarded to Serica in January 2007 and covers an area of around 4,700 square kilometres in the Mahakam Delta, mainly offshore. Serica originally held an interest of 52.5% in the PSC and is the operator. In February 2008 Serica announced that it had acquired an additional 25.5% working interest and now holds a 78% interest in the PSC.

The PSC is divided into several blocks, the majority of which are first phase relinquishments by the current main operators in the basin, Total, Chevron and VICO. The PSC lies in and around several giant fields, including Tunu (1,600 mmboe) and Attaka (800 mmboe), in the prolific Mahakam River delta both onshore and offshore.

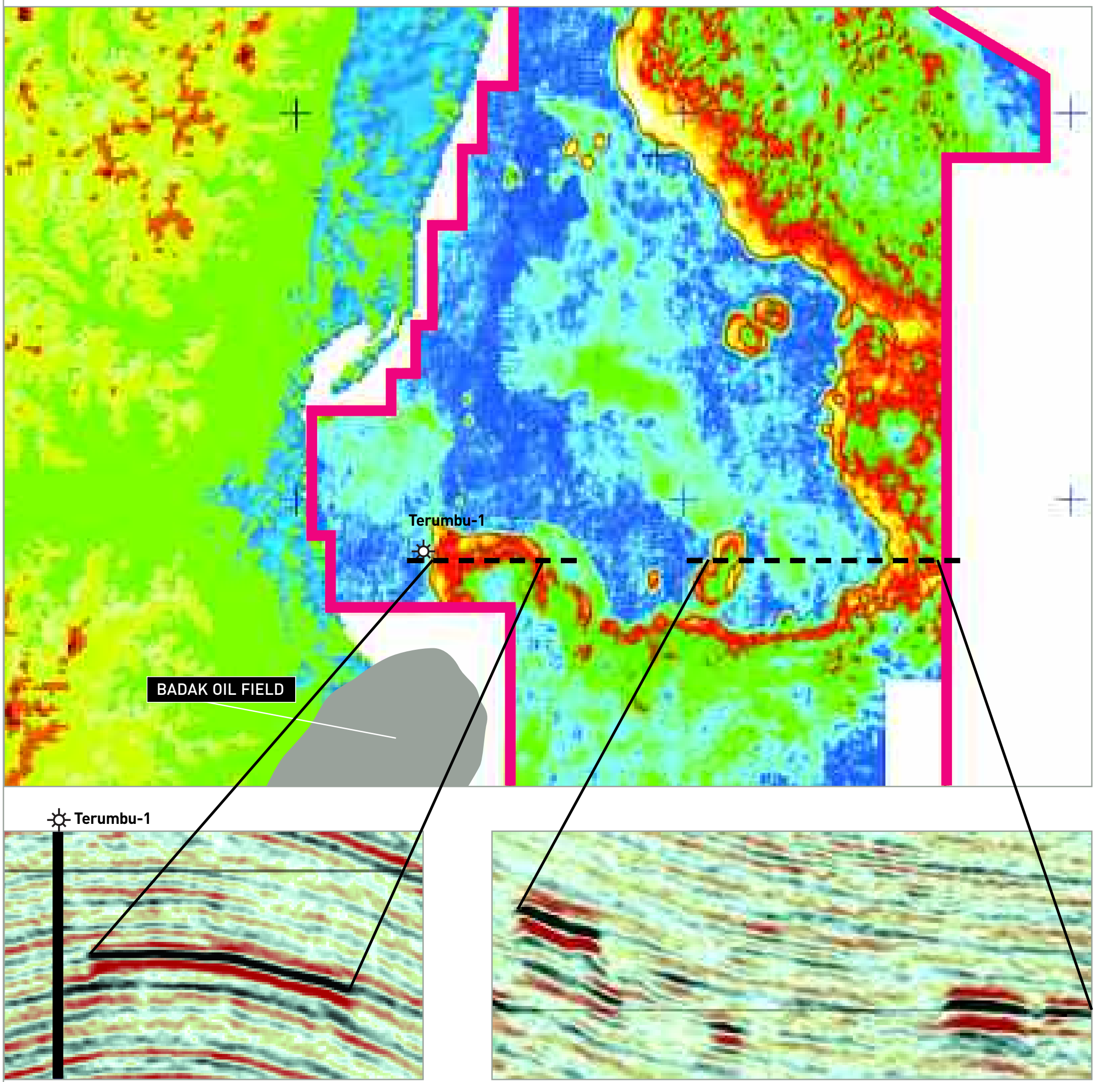
The PSC is adjacent to the Mahakam PSC operated by Total and which contains some of Indonesia's largest gas and condensate fields, with total daily production of around 2.5 billion cubic feet of gas and 90,000 barrels of oil and condensate. Total has an active exploration programme and in October 2007 announced two new discoveries in the southern part of the Mahakam block, a few kilometres from the Kutai PSC.

In 2007, an airborne elevation survey was carried out as part of the planning for a 2D seismic survey to be carried out in the onshore part of the PSC.

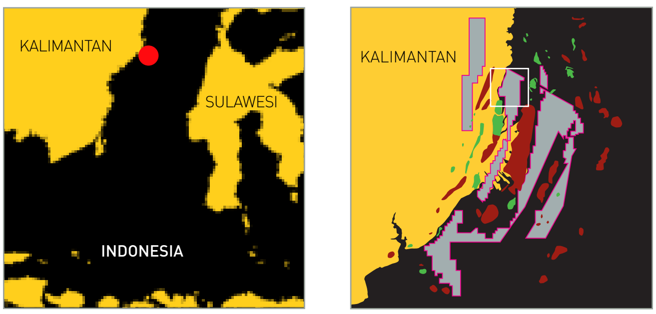
Over 2,000 square kilometres of existing modern 3D seismic data is now being interpreted by Serica in order to identify prospects and determine drilling locations for our first exploration campaign in the Mahakam Delta. On the basis of the early interpretation of this large volume of 3D data it appears that several potentially commercial prospects are likely to be identified.

A new offshore 3D seismic survey is also being planned and drilling in the Kutai PSC will commence in 2009.

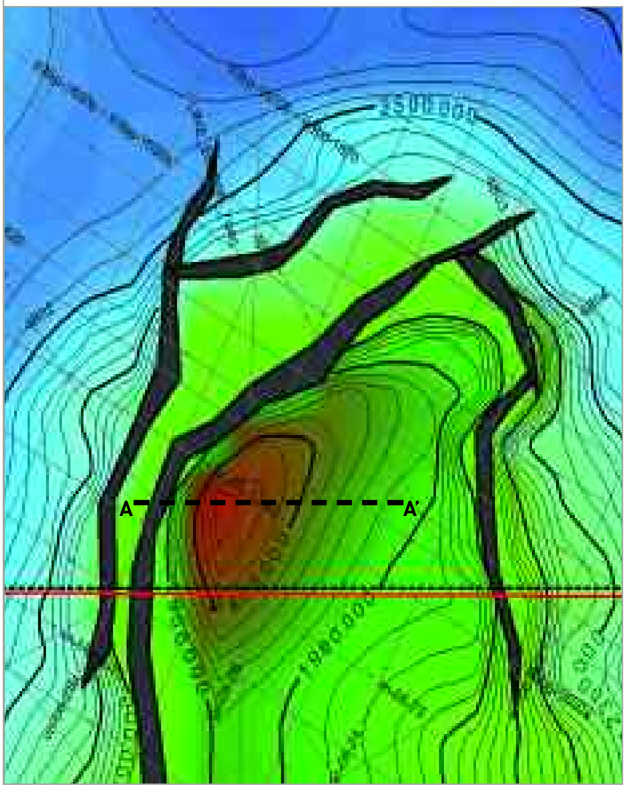
Kutai PSC – Seismic amplitude map showing a reef prospect



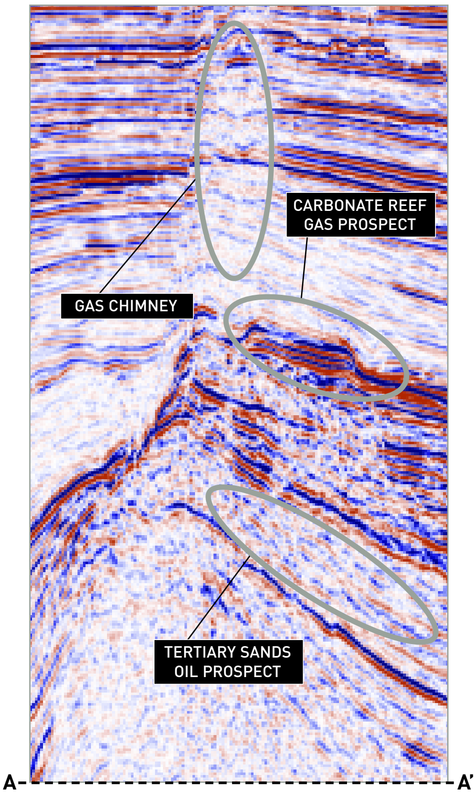
The Miocene reef and shelf edge carbonate prospectivity in the Kutai PSC area has been under explored, since previous operators did not focus on these prospects. However, several discoveries have been made in the area within reefs and this is an area of interest for Serica. The map shows an example of a very large fringing reef identified on the 3D seismic data which could have high potential.



Vietnam Block 06/94 – Structure map and seismic section illustrating oil and gas prospects



Scale: 1.5KM



The map shows the structure at Top Carbonate level. On the seismic section a "gas chimney" is apparent, a dimming of the seismic response above the prospects that indicates that hydrocarbons have been generated. A well is planned to test both oil and gas prospects.

VIETNAM

Block 06/94 PSC

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

During 2007 a 730 square kilometre 3D seismic survey was carried out and, based on the interpretation of this data, a rig has been contracted and a well is planned to be drilled in 2H08 in the south-western part of the block. A further 1,000 square kilometre 3D seismic survey is expected to be acquired in May 2008 and a 2D seismic survey is also planned.

The operator of the adjacent Block 12/E, Premier Oil, has announced that it is seeking bids for an FPSO for the development of its Blackbird and Dua oil fields. Serica expects to be able to identify both oil and gas prospects within Block 06/94.

Offshore 3D seismic survey being acquired. Off the stern of the vessel is a compressed air gun that creates sound waves that travel deep into the rocks below the sea bed. The vessel also tows a wide array of hydrophones that record the sound waves reflected back by the subsurface rock layers and these are processed to provide subsurface maps of the exploration prospects.

A length of 30 inch conductor pipe is being winched into the drilling rig derrick ready to be installed in a Kambuna development well. Conductor pipe is the outer casing used in drilling a well. The casings provide a means of circulating drilling mud to surface to remove rock cuttings as the well is drilled.

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 2007.

References to the "Company" include Serica and its subsidiaries where relevant. All figures are reported in US dollars ("US$") unless otherwise stated.

OVERALL PERFORMANCE

Serica's activities are based in Western Europe and South East Asia, with interests in the UK, Norway, Spain, Ireland, Indonesia and Vietnam. The Group has no current oil and gas production, with the main emphasis placed upon its near term developments and future exploration drilling programmes. In the year, work has continued on managing its portfolio of interests, advancing its Indonesian development towards first production, and completing a successful drilling programme in the UK North Sea.

At a Group Board level, Ian Vann and Steven Theede joined as non-executive directors in the summer, and in October, Serica confirmed the retirement of James Steel as a non-executive director of the Company. Ian and Steve bring a wealth of valuable experience in the international oil and gas business to the Board of Serica.

Western Europe: United Kingdom, Ireland, Norway and Spain

Early in the year, the formal award of new licences in both the UK and Norway was completed.

In the UK, Serica was awarded Block 23/16g in the Central North Sea, Block 48/17d in the Southern North Sea and Blocks 113/26b and 113/27b (part) in the East Irish Sea. Serica is the operator of all four blocks and has a 100% interest in each block except 23/16g, where it has a 50% interest.

In Norway, Serica was awarded a 20% interest in two large licences in the 2006 Awards in Predefined Areas ('APA') Licence Round. The licences are contiguous and cover a total area of approximately 1,625 square kilometres in the Egersund Basin, about 120 kilometres southwest of Stavanger. The licences contain the undeveloped Bream, Brisling and 18/10-1 oil discoveries. In Licence 407, an appraisal well is planned to be drilled in the Bream field in the second half of 2008 and, in Licence 406, a 3D seismic survey will be acquired early in 2008. Serica has a 20% interest in both of these licences.

In UK Block 23/16f, appraisal of the Company's Columbus discovery commenced in the third quarter of 2007. Two Columbus appraisal wells, 23/16f-12 and 23/16f-12z, were drilled and both were successful. Well 23/16f-12 was drilled as a vertical well approximately three kilometres north of the Columbus discovery well and encountered gas/condensate-bearing Paleocene sands at a higher elevation than those tested in well 23/16f-11. To further evaluate the Columbus discovery, the 23/16f-12 well was then sidetracked to a bottom-hole location approximately 2.2 kilometres north of the Columbus discovery well and encountered gas/condensate-bearing Paleocene sands similar to those found in 23/16f-11. The successful outcome of the two new wells supports the commercial development of Columbus and data from these wells will be used to advance field development studies. The Columbus field lies in close proximity to existing production infrastructure, providing the potential to commence production as soon as throughput agreements have been reached and the development wells can be tied-in. Serica is currently studying development options for the Columbus field.

In June 2007, Serica agreed with BG International Limited not to complete a previously announced acreage exchange, as a result of which Serica retained its 50% interest in Block 23/16f.
In Ireland, Serica is the operator and holds a 100% interest in Blocks 27/4, 27/5 (west) and 27/9, which cover an area of 611 square kilometres in the Slyne Basin off the west coast of Ireland and lie 42km south of the Corrib gas field currently being developed by Shell. The blocks are covered by existing 3D seismic data that has now been reprocessed and has confirmed the presence of four significant prospects. Serica will shortly carry out a site survey and expects to drill the first of these prospects in the summer of 2008.

OVERALL PERFORMANCE CONTINUED

In Spain, prior to carrying out a seismic survey, Serica entered into an agreement with Beach Petroleum Limited, under which the Company farmed out a 25% interest in its four exploration Permits onshore northern Spain, retaining a 75% interest and operatorship. The 315 kilometre 2D seismic survey, which commenced in the third quarter 2007, has recently been completed and the data is currently being evaluated.

South East Asia: Indonesia and Vietnam

In the Glagah Kambuna TAC, the first phase of the development programme for the Kambuna gas/condensate field commenced. The field production platform was built and in the first quarter of 2008 was positioned over the Kambuna No. 2 well and piled to the seabed. The GSF136 jack-up drilling rig is now drilling the Kambuna development wells No. 3 and No. 4 and will then complete all three wells for production. Onshore and offshore facilities and a 14-inch offshore pipeline will then be installed, with production targeted to commence by the end of 2008. The transfer of Serica's book costs of US$19.2 million in respect of Kambuna, from exploration and evaluation assets to development assets, classified under property, plant and equipment, occurred effective 31 December 2007.

Following the agreement of terms for the sale of gas to the Indonesian State electricity generation company Perusahan Listrik Negara ("PLN"), at an initial price of US$4.50 per million Btu (approximately $5.40 per million cubic feet) escalating at 3% per annum, tenders for a further quantity of gas have now been received at considerably higher prices. In addition to the gas, Serica will initially be marketing 4,000-5,000 barrels per day of condensate at a price close to that of crude oil. The Company anticipates that production from the field will commence in December 2008.

In the Biliton PSC, in March 2007, Serica entered into a farm-out agreement under the terms of which Nations Petroleum earned a 45% interest by paying a contribution to Serica's back costs and bearing the majority of the costs of drilling two wells in the PSC. Serica retains a 45% interest and operates the PSC.

Two exploration wells were drilled in the Biliton PSC in December 2007 and January 2008 using the GSF 136 drilling rig. Neither well contained hydrocarbons and each was therefore plugged and abandoned. Serica had always recognised that the high potential of Biliton came with a significant exploration risk, since the block is around 200 kilometres away from the established oil and gas fields of East Java. Costs associated with the Biliton PSC have been written off in these financial statements.

In Vietnam, a 730 kilometre 3D seismic survey was carried out and, based on the interpretation of this data, a well is planned to be drilled in the second half 2008 in the south-western part of Block 06/94. The operator of the adjacent Block 12/E, Premier Oil, has announced that it is seeking bids for an FPSO for the development of its Blackbird and Dua oil fields. Serica expects to be able to identify both oil and gas prospects within the block.

Debt facility

In November 2007 the Company entered into a US$100 million senior secured debt facility with JPMorgan Chase Bank, N.A. and The Governor and Company of the Bank of Scotland. The facility, which has an initial term of twelve months, with the Company having an option to extend for a further six months, will be used to fund appraisal and development expenditures for the Kambuna field in Indonesia and the Columbus field in the UK North Sea as well as for Norwegian appraisal expenditure and general corporate purposes.

Post year end

In January 2008 the Company announced the completion of a placing of 24,770,354 new ordinary shares to the AIM Market and the TSX-V in Canada. The total funds raised for the Company was approximately US$49 million after expenses. The funding available from the loan facility, in conjunction with the finance raised in the recent January 2008 placing will provide sufficient resources to progress with the Company's forward programme.

In February 2008 Serica announced that it had acquired an additional 25.5% working interest in the Kutai PSC in East Kalimantan, Indonesia. Serica, the operator of the Kutai PSC, now holds a 78% interest. The PSC was awarded to Serica in January 2007 and covers an area of around 4,700 square kilometres in the Mahakam Delta, mainly offshore. There is a large amount of existing modern 3D seismic data on the block that Serica is currently analysing and interpreting in order to determine drilling locations for 2009.

Serica remains very focused on creating shareholder value through its field development and exploration drilling programmes. As the Company continues to build on the exploration success that it has seen in the North Sea and Indonesia, its objectives are to bring the benefits of that success back to shareholders and to lay the foundations for future growth.

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

RESULTS OF OPERATIONS

Serica generated a loss of US$13.6 million for 2007 compared to a loss of US$14.4 million for 2006.

	2007 US$000	2006 US$000
Sales revenue	–	61
Expenses:		
Administrative expenses	(7,897)	(6,641)
Foreign exchange gain	394	1,715
Pre-licence costs	(375)	(4,205)
Asset write offs	(9,282)	(12,870)
Share-based payments	(1,962)	(1,918)
Change in fair value of share warrants	–	1,154
Depreciation and depletion	(149)	(95)
Operating loss before net finance revenue and tax	(19,271)	(22,799)
Profit on disposal	–	2,311
Finance revenue	2,814	4,931
Finance costs	(321)	–
Loss before taxation	**(16,778)**	**(15,557)**
Taxation credit for the year	3,149	1,182
Loss for the year	**(13,629)**	**(14,375)**
Basic and diluted loss per share (US$)	(0.09)	(0.10)

Revenues from oil and gas production are recognised on the basis of the Company's net working interest in its properties. In 2007 the Company had no revenue. Revenue in 2006 was generated from Serica's 10% interest in the Lematang PSC which contained the Harimau field. These revenues are from discontinued operations following the disposal of the Lematang PSC interest in 2006. Direct operating costs for the field during that period were carried by Medco Energi Limited.

RESULTS OF OPERATIONS CONTINUED

Administrative expenses of US$7.9 million for 2007 increased from US$6.6 million for 2006. The general increase from 2006 reflects the growing scale of the Company's activities, including further recruitment, over the past twelve months.

No significant foreign exchange movements impacted 2007 results. The significant foreign exchange gain of US$1.7 million earned in 2006 chiefly arose from the increase in US$ equivalent value of pounds sterling cash deposits held, as the pound continued to strengthen against the dollar during the year.

Pre-licence costs include direct cost and allocated general administrative cost incurred on oil and gas interests prior to the award of licences, concessions or exploration rights. The Company did not incur significant pre-licence expense in 2007, and the decrease in the charge from US$4.2 million in 2006 to US$0.4 million in 2007 is largely caused by data acquisition costs specific to the 2006 Norway licence applications (US$2.7 million) and Vietnam pre-licence activity, absent in 2007.

Asset write offs of US$9.3 million comprise US$9.0 million of largely pre-drilling costs in regard to the Biliton PSC and the Q4 2007 US$0.3 million charge against relinquished UK North Sea licences P1180, Block 23/16e and 23/17b. The Q4 Biliton PSC asset write offs include charges against exploration and evaluation assets (US$7.7 million), goodwill (US$0.4 million), inventory (US$0.6 million) and related long-term other receivables (US$0.3 million). 2006 asset write offs of US$12.9 million comprised US$12.7 million in regard to the Asahan Offshore PSC and the Q3 2006 US$0.2 million charge against relinquished UK North Sea licence P1240, Blocks 48/16a and 47/20b.

Share-based payment costs of US$2.0 million reflect allocations of charges related to share option grants made during the course of 2005, 2006 and 2007 and compare with costs of US$1.9 million for 2006.

In 2006 a fair value gain was recorded, as the fair value liability of warrants outstanding as at 31 December 2005 fell prior to their exercise in 2006. This had no impact in 2007 and no cash impact on any reported results.

Depletion and depreciation charges for 2006 and 2007 represent office equipment only and are negligible. Those costs of petroleum and natural gas properties classified as exploration and evaluation assets are not currently subject to such charges pending further evaluation. The Kambuna asset costs now classified as development costs and held within plant, property and equipment as at 31 December 2007, will be depleted once production commences.

The profit on disposal of US$2.3 million in 2006 was generated on the sale of the 10% interest in the Lematang PSC to Lundin Petroleum AB for US$5 million.

Finance revenue, comprising interest income of US$2.8 million for 2007, compares with US$4.9 million for 2006. The decrease from last year is due to the reduced cash deposit balances held following expenditure on various drilling programmes.

The first drawdown on the senior secured debt facility occurred soon after the facility was arranged in Q4 2007. Finance costs consist of interest payable and issue costs spread over the term of the bank loan facility.

The taxation credit of US$3.1 million in 2007 represents the following; a current tax credit from actual and expected tax recoveries on Norwegian expenditure to date (US$6.1 million); a US$0.4 million credit from the release of the deferred tax liabilities attached to Biliton; a partial offset of the current tax credit in respect of Norwegian expenditure by a deferred income tax charge of US$3.4 million from the timing differences arising from capitalised exploration expenditure. The taxation credit of US$1.2 million in 2006 arose from the release of the deferred tax liabilities attached to the Lematang PSC (US$0.5 million) and Asahan (US$0.7 million).

Expenditures during 2005, 2006 and 2007 have reduced any potential current income tax expense arising for 2007 and 2006 to US$ nil.

The net loss per share decreased from US$0.10 to US$0.09 in 2007.

SUMMARY OF QUARTERLY RESULTS

Quarter ended:	**31 Mar US$000**	**30 Jun US$000**	**30 Sep US$000**	**31 Dec US$000**
2007				
Sales revenue	–	–	–	–
(Loss)/profit for the quarter	(1,595)	(1,587)	1,237	(11,684)
Basic and diluted loss per share US$	(0.01)	(0.01)	–	(0.08)
Basic earnings per share US$	–	–	0.01	–
Diluted earnings per share US$	–	–	0.01	–
2006				
Sales revenue	25	36	–	–
Profit/(loss) for the quarter	1,037	1,839	(3,795)	(13,456)
Basic and diluted loss per share US$	–	–	(0.03)	(0.09)
Basic earnings per share US$	0.01	0.01	–	–
Diluted earnings per share US$	0.01	0.01	–	–

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

The fourth quarter 2006 loss includes asset write offs of US$12.7 million in regard to the Asahan Offshore PSC.

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES

Current Assets and Liabilities

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

	31 December 2007 US$000	31 December 2006 US$000
Current assets:		
Inventories	6,991	6,785
Trade and other receivables	21,906	30,872
Tax receivable	3,387	31
Cash and cash equivalents	22,638	77,306
Total Current assets	**54,922**	**114,994**
Less Current liabilities:		
Trade and other payables	(23,604)	(30,619)
Net Current assets	**31,318**	**84,375**

At 31 December 2007, the Company had net current assets of US$31.3 million which comprised current assets of US$54.9 million less current liabilities of US$23.6 million, giving an overall decrease in working capital of US$53.1 million in the year.

Inventories increased from US$6.8 million to US$7.0 million over the period.

Trade and other receivables at 31 December 2007 included a US$9.4 million upfront deposit payment for the Global Santa Fe drilling rig for Indonesian operations, and significant recoverable amounts from partners in Joint Venture operations in the UK, Indonesia and Spain. Other smaller items included prepayments and sundry UK and Indonesia working capital balances.

Cash and cash equivalents fell from US$77.3 million to US$22.6 million. The Company received US$5.0 million proceeds from the 2006 Lematang asset disposal, raised additional new funds of US$1.6 million through the exercise of share options and earned interest income of US$2.8 million, but incurred significant costs in 2007 from exploration work (principally the Q4 UK drilling programme on the Columbus discovery, preparation and start up costs of the Indonesian drilling programme, spend in Vietnam, Norway, Spain and Kutai) together with ongoing administrative costs.

Trade and other payables chiefly include significant trade creditors and accruals from the Indonesian drilling programme and amounts due to the sub-contractor operating the Q4 Columbus drilling programme. Other smaller items include sundry creditors and accruals for administrative expenses and other corporate costs.

Long-Term Assets and Liabilities

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

	31 December 2007 US$000	31 December 2006 US$000
Exploration and evaluation assets	71,874	40,681
Property, plant and equipment	19,543	342
Goodwill	768	1,200
Financial assets	4,680	–
Long-term other receivables	1,224	351
Financial liabilities	(9,582)	–
Deferred income tax liabilities	(3,910)	(955)

During 2007, total investments in petroleum and natural gas properties, excluding property, plant and equipment and represented by exploration and evaluation assets, increased from US$40.7 million to US$71.9 million. The net US$31.2 million increase consists of US$58.3 million of additions, less US$7.7 million of Biliton asset write offs and US$0.3 million of relinquished licence costs and the transfer of US$19.2 million of Kambuna costs from exploration and evaluation assets to property, plant and equipment which occurred effective 31 December 2007.

The US$58.3 million of additions were incurred on the following assets:

In South East Asia, US$9.7 million was spent in Indonesia on; drilling activity preparation, G&A on the Glagah Kambuna TAC (US$5.6 million), signature bonuses and seismic on the Kutai concessions (US$3.1 million), and US$1.0 million (net of US$1.0 million of back costs received in Q1) on Serica's share of Biliton drilling costs incurred on the two Biliton wells that exceeded the agreed carry by Nations Petroleum. US$6.7 million was spent in Vietnam on entry costs and seismic data acquisition.

In the UK & Western Europe, significant expenditure was incurred on Columbus 2007 drilling and other Block 23/16f costs (US$23.6 million), US$3.6 million in Spain (chiefly on a 2D seismic survey), US$4.4 million in Norway (on seismic data acquisition and other exploration) and US$2.0 million in the UK and Ireland on exploration work and other G&A.

The 2007 additions in UK & Western Europe also include costs capitalised when the anticipated recovery previously credited against exploration and evaluation assets as at 31 December 2006, was reversed in Q2 2007 following the announcement in June of the agreement between Serica and BG not to complete the BG/Serica cross assignment deal announced in 2006. Serica's capitalised cost now reflects its 50% share of costs incurred on the Block 23/16f in 2006, rather than the 25% previous interest.

The US$19.2 million increase in property, plant and equipment from US$0.3 million in 2006 results from the reclassification of Kambuna from exploration and evaluation assets to development assets effective 31 December 2007. Property, plant and equipment also includes immaterial balances of US$0.4 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, fell by US$0.4 million from US$1.2 million to US$0.8 million following the write off of costs allocated to Biliton.

Financial assets include US$4.7 million of restricted cash deposits.

WORKING CAPITAL, LIQUIDITY AND CAPITAL RESOURCES CONTINUED
Long-term other receivables of US$1.2 million are represented by value added tax ("VAT") on Indonesian capital spend, which would be recovered from future production.

Financial liabilities are represented by the first drawdown under the senior secured debt facility, which occurred in Q4 2007. This includes accrued interest payable and is disclosed net of the unamortised portion of allocated issue costs.

The deferred income tax liability increase of US$3.0 million from US$0.9 million to US$3.9 million, occurred from timing differences arising following the recognition of the Norwegian tax recovery asset. An increase of US$3.4 million was partially offset by a US$0.4 million liability decrease in relation to Biliton, which was released following the write off of Biliton costs.

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

	31 December 2007 US$000	31 December 2006 US$000
Total share capital	158,871	157,283
Other reserves	13,729	11,767
Accumulated deficit	(56,685)	(43,056)

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

Issued share capital during 2007 was increased by the exercise of 1,110,001 share options of the Company at prices ranging from Cdn$1.00 to Cdn$2.00.

Other reserves include those equity amounts in respect of the movement in cumulative expense of share-based payment charges, and the element of the fair value liability of share purchase warrants eliminated upon exercise of those warrants.

Capital Resources
At 31 December 2007, Serica had US$31.3 million of net working capital, US$9.6 million of long term debt and no capital lease obligations. At that date the Company had commitments to future minimum payments under operating leases in respect of rental office premises, office equipment and motor vehicles for each of the following years as follows:

	US$000
31 December 2008	381
31 December 2009	389
31 December 2010	83

During the year the Company contracted the Sedco 704 drilling rig for 96 days during 2007 and 2008 for UK & NW Europe operations. As at 31 December 2007 the Company has a commitment for a remaining 40 days at a gross cost of US$13.5 million. The operations currently identified for use of the rig are ventures where joint venture partners are expected to pay a share of the costs.

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 twelve months as follows:

Year ending 31 December 2008 US$43,442,000

These obligations reflect the Company's share of interests in the defined work programmes and are not formally contracted at 31 December 2007. The Company is not obliged to meet other joint venture partner shares of these programmes.

In the absence of revenues generated from oil and gas production Serica will utilise its existing cash balances, together with the US$100 million senior secured debt facility, to fund the immediate needs of its investment programme and ongoing operations. After the year end the cash balances existing at 31 December 2007 were supplemented by a net US$49 million raised from the share placing completed in January 2008.

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 2007 financial statements. International Financial Reporting Standards have been adopted. The cost of exploring for and developing petroleum and natural gas reserves are capitalised. Unproved properties are subject to periodic review for impairment whilst the costs of proved properties are depleted over the life of such producing fields. In each case, calculations are based upon management assumptions about future outcomes, product prices and performance.

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

Serica has exposure to interest rate fluctuations; given the level of expenditure plans over 2008/9 this is managed in the short-term through selecting treasury deposit periods of one to six months. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.

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

It is 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 2007, the following employee share options were outstanding:

	Expiry Date	Number	Exercise cost Cdn$
Share options	Jun 2008	400,000	720,000
	Feb 2009	247,499	494,998
	May 2009	100,000	200,000
	Dec 2009	275,000	275,000
	Jan 2010	600,000	600,000
	Jun 2010	1,100,000	1,980,000
			Exercise cost £
	Nov 2010	561,000	544,170
	Jan 2011	1,275,000	1,319,625
	May 2011	180,000	172,800
	June 2011	270,000	259,200
	Nov 2011	120,000	134,400
	Jan 2012	1,056,000	1,077,120
	May 2012	405,000	421,200
	Aug 2012	1,200,000	1,182,000

BUSINESS RISK AND UNCERTAINTIES

Serica, like all exploration companies in the oil and gas industry, operates in an environment subject to inherent risks. Many of these risks are beyond the ability of a company to control, particularly those associated with the exploring for and developing of economic quantities of hydrocarbons: volatile commodity prices; governmental regulations; and environmental matters.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

NATURE AND CONTINUANCE OF OPERATIONS

The principal activity of the Company is to identify, acquire and subsequently exploit oil and gas reserves primarily in Asia and Europe.

The Company's financial statements have been prepared with the assumption that the Company will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company currently has no operating revenues and, during the period ended 31 December 2007 the Company incurred losses of US$13.6 million from continuing operations. At 31 December 2007 the Company held cash and cash equivalents of US$22.6 million and a financial asset of restricted cash of US$4.7 million. Following the year end the Company raised an additional US$49 million net of expenses as the result of a Placing of 24,770,354 ordinary shares in the Company.

OUTSTANDING SHARE CAPITAL

As at 7 March 2008, the Company had 176,418,310 ordinary shares issued and outstanding.

ADDITIONAL INFORMATION

Additional information relating to Serica can be found on the Company's website at www.serica-energy.com and on SEDAR at www.sedar.com

APPROVED ON BEHALF OF THE BOARD

Paul Ellis – Chief Executive Officer
11 March 2008

Christopher Hearne – Finance Director

FORWARD LOOKING STATEMENTS

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

DIRECTORS' REPORT

The Directors of the Company present their report and the Group financial statements of Serica Energy plc ("Serica" or the "Company") for the year ended 31 December 2007.

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

Business Review and Future Developments
A review of the business and the future developments of the Group is presented in the Chairman's Statement, the Chief Executive Officer's Report, the Review of Operations, and in the Management's Discussion and Analysis.

Results and Dividends
The trading loss for the year was US$13,629,000 (2006: US$14,375,000).

The Directors do not recommend the payment of a dividend (2006: 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.

Events Since Balance Sheet Date
On 7 January 2008 the Company announced the completion of a placing of 24,770,354 new ordinary shares to the AIM market and the TSX-V in Canada. The new ordinary shares were placed with institutional and other investors on behalf of the Company by JPMorgan Cazenove and Tristone Capital. The total funds raised for the Company were approximately US$52 million before expenses.

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

Directors and their Interests
The following Directors have held office in the Company since 1 January 2007:

Antony Craven Walker
Paul Ellis
Christopher Hearne
Neil Pike
James Steel – Resigned 30 September 2007
Ian Vann – Appointed 1 July 2007
Steven Theede – Appointed 24 July 2007

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
Antony Craven Walker (1)	Ordinary	4,765,626	4,565,626
Paul Ellis (2)	Ordinary	350,000	250,000
Christopher Hearne	Ordinary	600,551	600,551
Neil Pike (3)	Ordinary	350,000	290,000
Ian Vann	Ordinary	9,752	–
Steven Theede	Ordinary	511,385	–

1. 3,173,925 ordinary shares are held by Antony Craven Walker, 1,548,003 ordinary shares are held by Christine Elizabeth Walker and 43,698 by Rathbones (ACW pension fund).

2. 100,000 ordinary shares are held by Rowanmoor Trustees (pension fund)

3. 260,000 ordinary shares are held by Neil 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.

According to the register of Directors' interests, 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 Share Option Plan (a summary of which is set out in note 27) as follows:

	1/1/07	Granted	Exercised	31/12/07	Exercise Price Cdn$	Date of grant	Expiry date
A Craven Walker	200,000	–	(200,000)	–	1.11	31/08/04	30/08/07
	200,000	–	–	200,000	1.80	15/06/05	14/06/08
P Ellis	1,000,000	–	–	1,000,000	1.80	15/06/05	14/06/10
C Hearne	600,000	–	–	600,000	1.00	17/01/05	16/01/10
	100,000	–	–	100,000	1.80	15/06/05	14/06/10
N Pike	100,000	–	(100,000)	–	1.11	31/08/04	30/08/07
	100,000	–	–	100,000	1.80	15/06/05	14/06/08

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

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

	1/1/07	Granted	Exercised	31/12/07	Exercise Price £	Date of grant	Expiry date
P Ellis	110,000	–	–	110,000	0.97	23/11/05	22/11/10
C Hearne	110,000	–	–	110,000	0.97	23/11/05	22/11/10
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.

The Directors may only exercise those options granted in November 2005 and held pursuant to the terms of the Serica 2005 Option Plan on condition that the Serica share price on a 30 day moving average basis prior to 23 November 2008 has reached at least 175p or prior to 23 November 2009 has reached at least 200p.

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

1. For the first tranche that vests, the Serica share price on a 30 day moving average basis prior to 10 August 2008 reached at least 125p or, if not, has satisfied condition 2 or 3,

2. For the first and second tranches, the Serica share price on a 30 day moving average basis prior to 10 August 2009 has reached at least 150p or, if not, has satisfied condition 3,

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

Major Interest in Shares

The Company has been notified of the following interests representing 3% or more of the issued ordinary share capital of the Company as at 6 March 2008:

	No of shares	Percentage holding
ZZZ Canada Control account c/o Capita Registrars	44,956,832	25.5
Fidelity International Ltd	24,021,998	13.6
Caledonia Investments	21,680,628	12.3
AXA Framlington	11,608,377	6.6
Cede & Co	8,509,497	4.8
Artemis Investment Management	5,622,500	3.2
Mr A Craven Walker	5,244,473	3.0

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

Supplier Payment Policy and Practice

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

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

Auditor

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

Directors' statement as to disclosure of information to auditors

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

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

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

On behalf of the Board

Christopher Hearne
Director
11 March 2008

Serica Energy plc

CORPORATE GOVERNANCE

The Board of Directors recognises the importance of sound corporate governance and the guidelines set out in the Combined Code on Corporate Governance (the "Combined Code"). Companies on the AIM market of the London Stock Exchange ("AIM") are not required to comply with the Combined Code, and due to its size, the Company is not in full compliance.

However, the Company intends to comply with the Combined Code so far as is practicable and appropriate, as well as the Corporate Governance Guidelines under National Policy 58-201 (the "Corporate Governance Guidelines") adopted by the Canadian Securities Administrators, and the regulations of the TSX Venture Exchange ("TSX-V") relating to corporate governance practices.

In addition to the disclosure presented below, further information regarding the Company's corporate governance practices can be found in the Company's management information circular dated 18 May 2007, a copy of which is available on SEDAR at www.sedar.com.

The Board and its Committees

The Board of the Company consists of two Executive Directors and four Non-Executive Directors. All of the latter are considered to be independent (including within the meaning of Multilateral Instrument 52-110). Their biographies, included herein, demonstrate a range of experience and sufficient calibre to bring the 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 is an independent director and has the responsibility of ensuring 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.

The independent Directors do not hold regularly scheduled meetings at which non-independent Directors and members of management are not in attendance. Although the Company has not implemented formal structures or procedures for the independent functioning of the Board, the Board believes that it operates independently of management. Individual Directors may engage outside advisors at the expense of the Company upon approval by the Board in appropriate circumstances.

The Board generally has at least ten regularly scheduled meetings in each financial year. Additional meetings may be held depending upon opportunities or issues to be dealt with by the Company from time to time.

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

Corporate Governance and Nomination Committee

The Corporate Governance and Nomination Committee is responsible for corporate governance matters, including the Company's response to the Combined Code, the Corporate Governance Guidelines and the rules of the TSX-V. The committee is also responsible for proposing to the Board new nominees for election as Directors to the Board, determining successor plans for the Chairman and Chief Executive and for assessing directors on an ongoing basis. The committee proposes to meet three times during the next financial year. The Corporate Governance and Nomination Committee is composed entirely of independent directors. The Corporate Governance and Nomination Committee is chaired by Antony Craven Walker and its other member is Neil Pike. James Steel served on the committee until his resignation from the Board on 30 September 2007.

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. The committee's purpose is to assist the Board's oversight of the integrity of the financial statements and other financial reporting, the independence and performance of the auditors, the regulation and risk profile of the Group and the review and approval of any related party transactions. The Audit Committee may hold private sessions with management and the external auditor. The Audit Committee proposes to meet six times during the next financial year. The committee is chaired by Neil Pike and its other members are Antony Craven Walker and Steven Theede. James Steel served on the committee until his resignation from the Board on 30 September 2007.

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, 2006, a copy of which is available on SEDAR at www.sedar.com.

Remuneration and Compensation Committee

The Remuneration and Compensation Committee meets regularly to consider all material elements of remuneration policy, the remuneration and incentivisation of Executive Directors and senior management and to make recommendations to the Board on the framework for executive remuneration and its cost. In addition, the role of the Remuneration and Compensation Committee is to enable the Company to attract, retain and motivate the most qualified talent who will contribute to the long-term success of the Company. The Board is responsible for implementing the recommendations and agreeing to the remuneration packages of individual Directors. The Remuneration and Compensation Committee proposes to meet four times during the next financial year. The committee is composed entirely of independent directors. The Remuneration and Compensation Committee is chaired by Antony Craven Walker and its other members are Neil Pike and Steve Theede. James Steel served on the committee until his resignation from the Board on 30 September 2007.

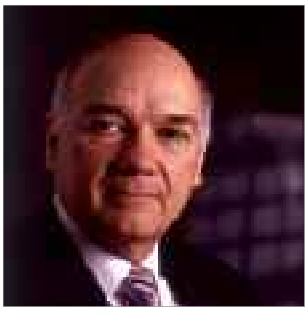
Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is responsible for matters affecting occupational health, safety and the environment, including the formulation of a health, safety and environmental policy statements. The committee proposes to meet at least three times a year. The committee is composed of the Chief Executive and two independent directors. The Health, Safety and Environmental Committee is chaired by Paul Ellis and its other members are Antony Craven Walker and Ian Vann. James Steel served on the committee until his resignation from the Board on 30 September 2007.

DIRECTORS' BIOGRAPHIES

Antony Craven Walker
Non-Executive Chairman

Tony Craven Walker, age 65, started his career with BP and has been a leading figure in the British independent oil industry since the early 1970s. He founded two British independent oil companies, Charterhouse Petroleum, where he held the post of Chief Executive, and Monument Oil and Gas, where he held the post of Chief Executive and later became Chairman. He was also a founder member of BRINDEX (Association of British Independent Oil Exploration Companies).

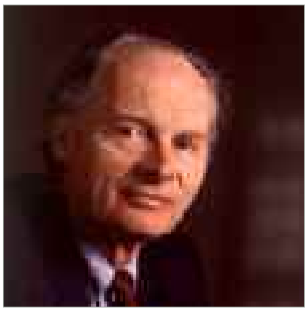


Paul Ellis
Chief Executive Officer

Paul Ellis, age 61, has 38 years of experience within the areas of exploration, production, development and management of international oil and gas ventures. He joined Serica from Emerald Energy where, as Chief Operating Officer, he was instrumental in the successful expansion of the company's exploration and production interests. Paul commenced his career with BP and subsequently held senior positions in the international oil and gas industry including Technical Director at Charterhouse Petroleum, Director International E&P at British Gas and Senior Vice President International at PanCanadian Petroleum.

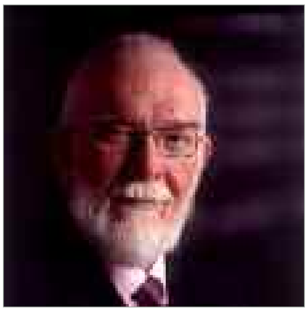
Christopher Hearne
Finance Director

Chris Hearne, age 42, 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.



Neil Pike
Non-Executive Director

Neil Pike, age 62, has been involved in the global petroleum business as a financier since joining the energy department at Citibank in 1975 until joining the board of Serica. Neil remained an industry specialist with Citibank throughout his career and was closely involved in the development of specialised oil field finance. Latterly he was responsible for Citibank's relationships with the oil and gas industry worldwide.



Ian Vann
Non-Executive Director

Ian Vann, age 59, was employed by BP from 1976, and directed and led BP's global exploration efforts from 1996 until his recent retirement in January 2007. He was appointed to the executive leadership team of the Exploration & Production Division of BP in 2001, initially as Group Vice President, Technology and later as Group Vice President, Exploration and Business Development.

Steven Theede
Non-Executive Director

Steven Theede, age 55, 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.

A roustabout prepares to select a length of 30 inch conductor pipe to be raised into the drilling derrick. Each section of pipe has a slightly different length, and a tally is kept to make it possible to identify a particular pipe section and thereby accurately determine its depth.

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SERICA ENERGY PLC

We have audited the Group and Company financial statements (the "financial statements") of Serica Energy plc for the year ended 31 December 2007 which comprise the Group Income Statement, Group and Company Balance Sheets, Group and Company Statements of Changes in Equity, Group and Company Cash Flow Statements and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

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

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Management's Discussion and Analysis that is cross referred from the Business Review and Future Developments section of the Directors' Report.

In addition we report to you if, in our opinion we have not received all the information and explanations we requires for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's Report is consistent with the financial statements.

Separate opinion in relation to IFRSs

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

In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2007 and of the Group's loss for the year then ended.

Ernst & Young LLP
Registered Auditors
1 More London Place
London
SE1 2AF
11 March 2008

COMMENTS BY AUDITORS FOR CANADIAN READERS

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

Ernst & Young LLP
Registered Auditors
1 More London Place
London
SE1 2AF
11 March 2008

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

Notes		2007 US$000	2006 US$000
3	**Sales revenue**	**–**	**61**
	Cost of sales	–	–
	Gross profit	**–**	**61**
5	Administrative expenses	(7,897)	(6,641)
	Foreign exchange gain	394	1,715
	Pre-licence costs	(375)	(4,205)
13,15	Asset write offs	(9,282)	(12,870)
	Share-based payments	(1,962)	(1,918)
	Change in fair value of share warrants	–	1,154
6	Depreciation and depletion	(149)	(95)
	Operating loss before net finance revenue and tax	**(19,271)**	**(22,799)**
17	Profit on disposal	–	2,311
9	Finance revenue	2,814	4,931
10	Finance costs	(321)	–
	Loss before taxation	**(16,778)**	**(15,557)**
11 a)	Taxation credit for the year	3,149	1,182
	Loss for the year	**(13,629)**	**(14,375)**
	Loss per ordinary share (US$)		
12	Basic and diluted LPS	(0.09)	(0.10)

BALANCE SHEET
AS AT 31 DECEMBER 2007

Notes		Group 2007 US$000	Group 2006 US$000	Company 2007 US$000	Company 2006 US$000
	Non-current assets				
13	Exploration & evaluation assets	71,874	40,681	–	–
14	Property, plant and equipment	19,543	342	–	–
15	Goodwill	768	1,200	–	–
16	Investments in subsidiaries	–	–	130,684	119,682
18	Financial assets	4,680	–	4,680	–
18	Other receivables	1,224	351	–	–
		98,089	42,574	135,364	119,682
	Current assets				
19	Inventories	6,991	6,785	–	–
20	Trade and other receivables	21,906	30,872	117,373	76,120
20	Tax receivable	3,387	31	–	–
21	Cash and cash equivalents	22,638	77,306	7,172	49,098
		54,922	114,994	124,545	125,218
	TOTAL ASSETS	**153,011**	**157,568**	**259,909**	**244,900**
	Current liabilities				
22	Trade and other payables	(23,604)	(30,619)	(6,376)	(1,045)
	Non-current liabilities				
23	Financial liabilities	(9,582)	–	(9,582)	–
11	Deferred income tax liabilities	(3,910)	(955)	–	–
	TOTAL LIABILITIES	**(37,096)**	**(31,574)**	**(15,958)**	**(1,045)**
	NET ASSETS	**115,915**	**125,994**	**243,951**	**243,855**
	Share capital	158,871	157,283	123,599	122,011
25	Merger reserve	–	–	112,174	112,174
16	Other reserves	13,729	11,767	13,729	11,767
	Accumulated deficit	(56,685)	(43,056)	(5,551)	(2,097)
	TOTAL EQUITY	**115,915**	**125,994**	**243,951**	**243,855**

Approved by the Board on 11 March 2008

Paul Ellis – Chief Executive Officer

Christopher Hearne – Finance Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

Group	Share capital US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2006	148,745	4,153	(28,681)	124,217
Conversion of warrants	8,530	–	–	8,530
Conversion of options	35	–	–	35
Issue of shares (net)	(27)	–	–	(27)
Share-based payments	–	1,918	–	1,918
Loss for the year	–	–	(14,375)	(14,375)
Fair value of warrants converted	–	5,696	–	5,696
At 31 December 2006	**157,283**	**11,767**	**(43,056)**	**125,994**
Conversion of options	1,588	–	–	1,588
Share-based payments	–	1,962	–	1,962
Loss for the year	–	–	(13,629)	(13,629)
At 31 December 2007	**158,871**	**13,729**	**(56,685)**	**115,915**

Company	Share capital US$000	Merger reserve US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2006	113,473	112,174	4,153	(4,433)	225,367
Conversion of warrants	8,530	–	–	–	8,530
Conversion of options	35	–	–	–	35
Issue of shares (net)	(27)	–	–	–	(27)
Share-based payments	–	–	1,918	–	1,918
Profit for the year	–	–	–	2,336	2,336
Fair value of warrants converted	–	–	5,696	–	5,696
At 31 December 2006	**122,011**	**112,174**	**11,767**	**(2,097)**	**243,855**
Conversion of options	1,588	–	–	–	1,588
Share-based payments	–	–	1,962	–	1,962
Loss for the year	–	–	–	(3,454)	(3,454)
At 31 December 2007	**123,599**	**112,174**	**13,729**	**(5,551)**	**243,951**

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Group 2007 US$000	2006 US$000	Company 2007 US$000	2006 US$000
Cash flows from operating activities:				
Operating loss	(19,271)	(22,799)	(5,011)	(1,376)
Adjustments for:				
Depreciation and depletion	149	95	–	–
Asset write offs	9,282	12,870	–	–
Share-based payments	1,962	1,918	1,962	1,918
Change in fair value of share warrants	–	(1,154)	–	(1,154)
Changes in working capital	(5,008)	(10,813)	(1,899)	(122)
Cash generated from operations	(12,886)	(19,883)	(4,948)	(734)
Taxes received	2,717	35	–	–
Net cash outflow from operations	**(10,169)**	**(19,848)**	**(4,948)**	**(734)**
Cash flows from investing activities:				
Interest received	2,873	4,999	1,497	3,872
Purchase of property, plant and equipment	(185)	(411)	–	–
Purchase of intangible exploration assets	(58,766)	(24,190)	–	–
Funding provided to Group subsidiaries	–	–	(45,054)	(68,126)
Funding provided for work programmes	(4,680)	–	(4,680)	–
Disposals of intangible exploration assets	5,000	–	–	–
Net cash used in investing activities	**(55,758)**	**(19,602)**	**(48,237)**	**(64,254)**
Cash proceeds from financing activities:				
Net loan financing	9,671	–	9,671	–
Net proceeds from issue of shares	–	(1,559)	–	(1,559)
Proceeds on exercise of warrants/options	1,588	8,565	1,588	8,565
Net cash from financing activities	**11,259**	**7,006**	**11,259**	**7,006**
Net decrease in cash and cash equivalents	**(54,668)**	**(32,444)**	**(41,926)**	**(57,982)**
Cash and cash equivalents at 1 January	77,306	109,750	49,098	107,080
Cash and cash equivalents at 31 December	22,638	77,306	7,172	49,098

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 2007 were authorised for issue by the Board of Directors on 11 March 2008 and the balance sheets were signed on the Board's behalf by Paul Ellis and Chris Hearne. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales. The principal activity of the Company and the Group is to identify, acquire and subsequently exploit oil and gas reserves primarily in Asia and Europe. The Company's ordinary shares are traded on AIM and the TSX-V.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2007. The Company's financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Company for the period ended 31 December 2007 and as applied in accordance with the provisions of the Companies Act 1985. The Group and Company's financial statements are also consistent with IFRS as issued by the IASB. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes. The deficit dealt with in the financial statements of the parent Company was US$3,454,000 (2006: profit US$2,336,000).

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 2007.

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.

Use of 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. Actual outcomes could differ from those estimates.

The key sources of estimation uncertainty that has a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the estimation of share-based payment costs and the impairment of intangible exploration assets (E&E assets). 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 judgements relating to the continuing participation of employees (see note 27).

The Group determines whether E&E assets are impaired in cost pools when facts and circumstances suggest that the carrying amount of a cost pool 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 discount rate. The capitalisation and any write off of E&E assets necessarily involve certain judgements with regard to whether the asset will ultimately prove to be recoverable.

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, APD (Glagah Kambuna) Limited, Serica Energy Pte Limited, Serica Kutei B.V., Serica Nam Con Son B.V. and Serica Energy Norge AS. Together these comprise the "Group".

All significant 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.

2. ACCOUNTING POLICIES CONTINUED

Reverse takeovers

Certain acquisitions whereby the substance of the acquisition is that the acquirer is the entity whose equity interests have been acquired, and the issuing entity is the acquiree, are considered to represent a reverse takeover. The legal subsidiary being acquired is the acquirer if it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities. Reverse takeovers are treated as a business combination whereby the consolidated financial statements prepared following the takeover represent a continuation of the financial statements of the legal subsidiary acquired.

Joint Venture Activities

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

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

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

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

Exploration and Evaluation Assets

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

Pre-licence Award Costs

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

Exploration and Evaluation

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

E&E assets are not amortised prior to the conclusion of appraisal activities but are assessed for impairment in cost pools when facts and circumstances suggest that the carrying amount of a cost pool 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 cost pool 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 a development asset 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.

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 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 2006 or 2007.

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.

Property, Plant and Equipment – Development Assets
Capitalisation
Development and production assets 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.

Depreciation
Development assets are not depreciated until production commences. Costs relating to each single field cost centre are depleted on a unit of production method based on the commercial proven and probable reserves for that cost centre. The depletion calculation takes account of the estimated future costs of development of recognised proven and probable reserves, based on current price levels. 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 development assets when there are such indications, an impairment test is carried out on the cash generating unit. Each cash generating unit is identified in accordance with IAS 36. Serica's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development or production areas. If necessary, additional depletion 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.

2. ACCOUNTING POLICIES CONTINUED

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.

Financial Instruments

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

Trade and other receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Bad debts are written off when identified.

Financial assets

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments 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 outstanding share warrants which are carried at fair value. Changes in fair value are recognised in the income statement for the period.

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 arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

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 at a constant rate on the carrying amount. Arrangement fees and issue costs are amortised and charged to the income statement as finance costs over the term of the debt.

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

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

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

Share Warrants
The fair value of each outstanding warrant is estimated using a Black Scholes pricing model based upon the warrant exercise price, the share price, volatility and the life of the warrant.

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

2. ACCOUNTING POLICIES CONTINUED

Income Taxes

Deferred tax is provided using the liability method and tax rates and laws that have been enacted or substantially 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 asset 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 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

IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS/IFRSs)
IFRS 2 'Amendment to IFRS 2 – Vesting Conditions and Cancellations' – Effective date 1 January 2009
IFRS 3 'Business Combinations (revised January 2008)' – Effective date 1 July 2009
IFRS 8 'Operating Segments' – Effective date 1 January 2009
IAS 1 'Presentation of Financial Statements (revised September 2007)' – Effective date 1 January 2009
IAS 23 'Borrowing Costs (revised March 2007) – Effective date 1 January 2009
IAS 27 Consolidated and Separate Financial Statements (revised January 2008) – Effective date 1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)
IFRIC 11 'IFRS2 - Group and Treasury Share Transactions' – Effective for periods starting 1 March 2007
IFRIC 12 'Service Concession Arrangements' – Effective date 1 January 2008
IFRIC 13 'Customer Loyalty Programmes' – Effective date 1 July 2008
IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' – Effective date 1 January 2008

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

3. REVENUE

Revenue disclosed in the income statement is analysed as follows.

	2007 US$000	2006 US$000
Gas and gas condensate sales	–	61

The sales in 2006 represent sales from the Harimau field in Indonesia which was sold by the Group in 2006. Direct operating costs for the Harimau field during the period it was owned by the Group were carried by Medco Energi Limited.

4. SEGMENTAL INFORMATION

The primary segment reporting format is determined to be geographical segments and they are based on the location of the Group's assets. The Group has only one business segment, that of oil & gas exploration.

The following tables present revenue and certain asset and liability information regarding the Group's geographical segments for the years ended 31 December 2007 and 2006. Costs of the Singapore office are included in the Indonesian and Vietnam geographical segment.

Year ended 31 December 2007	Indonesia & Vietnam US$000	UK & NW Europe US$000	Spain US$000	Total US$000
Revenue	–	–	–	–
Other expenses	(976)	(8,300)	(189)	(9,465)
Pre-licence costs	(176)	(199)	–	(375)
Asset write offs	(8,991)	(291)	–	(9,282)
Depreciation	(45)	(104)	–	(149)
Segment result	**(10,188)**	**(8,894)**	**(189)**	**(19,271)**
Other segment information:				
Exploration and evaluation assets	9,833	57,243	4,798	71,874
Plant, property and equipment	19,313	230	–	19,543
Goodwill	384	293	91	768
Other assets	25,845	21,331	2,150	49,326
Unallocated assets				11,500
Total assets	**55,375**	**79,097**	**7,039**	**153,011**
Segment liabilities	(14,879)	(17,206)	(1,101)	(33,186)
Unallocated liabilities				(3,910)
Total liabilities	**(14,879)**	**(17,206)**	**(1,101)**	**(37,096)**
Capital expenditure 2007:				
Exploration and evaluation assets	16,334	38,349	3,643	58,326
Property, plant and equipment	86	99	–	185

4. SEGMENTAL INFORMATION CONTINUED

Year ended 31 December 2006	Indonesia & Vietnam US$000	UK & NW Europe US$000	Spain US$000	Total US$000
Revenue	**61**	**–**	**–**	**61**
Other expenses	(1,368)	(5,284)	(192)	(6,844)
Pre-licence costs	(552)	(3,653)	–	(4,205)
Asset write offs	(12,701)	(169)	–	(12,870)
Depreciation	(25)	(70)	–	(95)
Change in fair value of warrants				1,154
Segment result	**(14,585)**	**(9,176)**	**(192)**	**(22,799)**
Other segment information:				
Exploration and evaluation assets	20,632	18,894	1,155	40,681
Plant, property and equipment	109	233	–	342
Goodwill	816	293	91	1,200
Other assets	14,833	26,266	15	41,114
Unallocated assets				74,231
Total assets	**36,390**	**45,686**	**1,261**	**157,568**
Segment liabilities	(8,702)	(21,869)	(48)	(30,619)
Unallocated liabilities				(955)
Total liabilities	**(8,702)**	**(21,869)**	**(48)**	**(31,574)**
Capital expenditure 2006:				
Exploration and evaluation assets	11,646	17,542	464	29,652
Property, plant and equipment	65	346	–	411

5. ANALYSIS OF EXPENSES BY FUNCTION

	2007 US$000	2006 US$000
Administrative	7,897	6,641
Asset write offs	9,282	12,870
Other	2,092	3,349
	19,271	**22,860**

6. GROUP OPERATING LOSS

	2007 US$000	2006 US$000
This is stated after charging:		
Depreciation of property, plant and equipment	149	95
Total depreciation and amortisation expense	**149**	**95**
Operating lease rentals:		
Land and buildings	321	235
Other	29	50
Total lease payments recognised as an expense	**350**	**285**

7. AUDITOR'S REMUNERATION

	2007 US$000	2006 US$000
Audit of the financial statements (i)	287	260
	287	**260**

	US$000	US$000
Other fees to auditor:		
Corporate finance services (ii)	352	27
Other services (iii)	–	28
	352	**55**

(i) US$248,000 (2006 – US$233,000) of this relates to the Company.

(ii) US$352,000 was incurred on various 2007 financing projects. Costs of US$82,000 in respect of the share placing, completed in 2008 are held as a prepayment and will be netted against share premium in 2008.

(iii) Other services were incurred in respect of treasury procedures in 2006.

8. STAFF COSTS AND DIRECTORS' EMOLUMENTS

a) Staff Costs

The average monthly number of persons (excluding Directors) employed by the Group during the year was:

	2007	2006
Management	3	3
Technical	12	7
Finance and administration	15	13
	30	**23**

	US$000	US$000
Staff costs for the above persons:		
Wages and salaries	2,631	1,955
Social security costs	296	203
Other pension costs	233	45
Share-based long-term incentives (including related NI cost)	1,739	2,047
	4,899	**4,250**

b) Directors' Emoluments

The emoluments of the individual Directors were as follows:

	Salary and fees 2007 US$000	Benefits in kind 2007 US$000	Total 2007 US$000	Total 2006 US$000
A Craven Walker	140	–	140	132
P Ellis	400	12	412	455
C Hearne	350	10	360	338
J Steel (Resigned 30 September 2007)	52	–	52	66
N Pike	80	–	80	75
I Vann (Appointed 1 July 2007)	34	–	34	–
S Theede (Appointed 24 July 2007)	31	–	31	–
C Atkinson (Resigned 31 December 2006)	–	–	–	310
	1,087	**22**	**1,109**	**1,376**

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

	US$000	US$000
Aggregate gains made by Directors on the exercise of options	440	–

9. FINANCE REVENUE

	2007 US$000	2006 US$000
Bank interest receivable	2,669	4,931
Other interest receivable	145	–
Total finance revenue	**2,814**	**4,931**

10. FINANCE COSTS

	2007 US$000	2006 US$000
Bank loans	321	–
Total finance costs	**321**	**–**

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

11. TAXATION

a) Tax on loss on ordinary activities

	2007 US$000	2006 US$000
Tax (credited)/charged in the income statement		
UK corporation tax	–	–
Foreign tax credit	(6,104)	–
Total current income tax credit	**(6,104)**	**–**
Deferred tax		
Releases on disposals and write offs	(432)	(1,182)
Timing differences on capital expenditure	3,387	–
Tax losses carried forward	–	–
Total deferred tax charge/(credit)	**2,955**	**(1,182)**
Tax credit in the income statement	**(3,149)**	**(1,182)**

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

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

	2007 US$000	2006 US$000
Loss from operations before taxation and accounting loss before income tax	(16,778)	(15,557)
Expected tax recovery at statutory income tax rate of 30% (2006 – 30%)	(5,033)	(4,667)
Expenses not deductible for tax purposes	567	617
Unrecognised deferred tax assets	572	1,070
Recognition of previously unrecognised deferred tax assets	–	(1,293)
Taxable gain on disposal of PSC interest	–	807
Gain on intra-group disposal	1,196	–
Release of deferred tax liability	(432)	(1,182)
Norwegian tax credit on losses not previously recognised	(2,717)	–
Asset write down not tax effected	2,698	3,811
Change in fair value of warrants	–	(345)
Tax credit in the income statement	**(3,149)**	**(1,182)**

c) Unrecognised tax losses

The Group has non-capital tax losses of approximately US$5.3 million (2006: US$17.1 million). The benefit of these tax losses has not been recognised in these consolidated statements to the extent that they are not available to set against the deferred tax liability.

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

	2007 US$000	2006 US$000
Deferred tax liability:		
Fair value adjustments on business combinations	523	955
Timing differences on capital expenditure	3,387	–
Deferred tax liability	**3,910**	**955**
Deferred tax asset:		
Tax losses carried forward	–	–
Deferred tax asset	**–**	**–**

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

	2007 US$000	2006 US$000
Deferred tax in the income statement:		
Release of liability on disposal	–	(505)
Release of liability on write off	(432)	(677)
Timing differences on capital expenditure	3,387	–
Deferred income tax charge/(credit)	**2,955**	**(1,182)**

e) Change in corporation tax rate
The UK corporation tax rate will decrease 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.

f) Company
There is no current or deferred taxation charge, or deferred tax asset/liability in the Company (2006: US$nil).

12. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net 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 all dilutive potential ordinary shares into ordinary shares.

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

	2007 US$000	2006 US$000
Net loss attributable to equity holders of the parent	(13,629)	(14,375)

	2007 '000	2006 '000
Basic and diluted weighted average number of shares	151,355	146,391

As a result of the net loss for the years ended 31 December 2006 and 2007, there is no dilutive effect of the share options and warrants.

13. EXPLORATION AND EVALUATION ASSETS

Group	Total US$000
Cost:	
1 January 2006	23,591
Additions	29,652
Disposals (see note 17)	(2,051)
Write offs	(10,511)
31 December 2006	40,681
Additions	58,326
Relinquished licences	(291)
Write offs	(7,677)
Transfers (see note 14)	(19,165)
31 December 2007	71,874
Depreciation:	
1 January 2006 and 1 January 2007	–
Charge for the year	–
31 December 2007	–
Net book value:	
31 December 2007	**71,874**
31 December 2006	**40,681**
1 January 2006	**23,591**

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

The E&E asset write offs during 2006 include US$10,342,000 in respect of the Asahan Offshore PSC, and US$169,000 from relinquished licences in the UK. The total asset write off charge in the Income Statement for Asahan Offshore PSC costs was US$12,701,000 comprising E&E assets (US$10,342,000), goodwill (US$677,000), inventory (US$537,000) and long term other receivables (US$1,145,000).

Company
The Company has no E&E assets.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Development Assets US$000	Computer/ IT Equipment US$000	Fixtures, Fittings & Equipment US$000	Total US$000
Cost:				
1 January 2006	–	81	6	87
Additions	–	69	342	411
31 December 2006	–	150	348	498
Additions	–	28	157	185
Transfers (see note 13)	19,165	–	–	19,165
31 December 2007	19,165	178	505	19,848
Depreciation:				
1 January 2006	–	55	6	61
Charge for the year	–	33	62	95
31 December 2006	–	88	68	156
Charge for the year	–	37	112	149
31 December 2007	–	125	180	305
Net book value:				
31 December 2007	**19,165**	**53**	**325**	**19,543**
31 December 2006	**–**	**62**	**280**	**342**
1 January 2006	**–**	**26**	**–**	**26**

Development Assets
With effect from 31 December 2007 all costs carried in respect of Kambuna were reclassified from 'exploration and evaluation' assets to 'development' assets within property, plant and equipment.

Company
The Company has no property, plant and equipment.

15. GOODWILL

Group	**Total US$000**
At 1 January 2006	2,382
Disposals	(505)
Write offs (see note 13)	(677)
At 31 December 2006	1,200
Write offs (see note 13)	(432)
At 31 December 2007	**768**

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

UK [US$293,000 (2006: US$293,000)], Indonesia [US$384,000 (2006: US$816,000)] and Spain [US$91,000 (2006: US$91,000)].

These represent the lowest level within the Group at which goodwill is monitored for internal management purposes. For the purposes of impairment review, the recoverable amount attributed to a cash generating unit is its value in use after applying a 10% discount rate (2006: 10%). The calculation of value in use for the cash-generating units is most sensitive to the following assumptions: Oil prices, reserve estimates, discount rates.

Company
The Company has no goodwill.

16. INVESTMENTS

Company – Investment in subsidiaries	**US$000**
Cost:	
At 31 December 2005	119,649
Investment in Serica Energy Holdings B.V.	33
At 31 December 2006	119,682
Investment in Serica Holdings UK Limited	11,002
At 31 December 2007	**130,684**

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

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

	Holding	**Nature of business**	**% voting rights and shares held 2007**	**% voting rights and shares held 2006**
Name of company:				
Serica Energy Corporation (ii)	Ordinary	Admin	100	100
Serica Energy Holdings B.V. (iii)	Ordinary	Holding	100	100
Serica Holdings UK Ltd	Ordinary	Holding	100	100
Serica Energy (UK) Ltd (i)	Ordinary	Exploration	100	100
Serica Energia Iberica SL (i)	Ordinary	Exploration	100	100
Serica Energy Pte Ltd (i & ii)	Ordinary	Admin	100	100
APD Ltd (i & ii)	Ordinary	Holding	100	100
APD(Glagah Kambuna) Ltd (i & ii)	Ordinary	Exploration	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	Exploration	100	100
Serica Kutei B.V. (i & iii)	Ordinary	Exploration	100	100
Serica Nam Con Son B.V. (i & iii)	Ordinary	Exploration	100	100
Serica Energy Norge AS (i & iv)	Ordinary	Exploration	100	100

(i) Held by a subsidiary undertaking

(ii) Incorporated in the British Virgin Islands

(iii) Incorporated in the Netherlands

(iv) Incorporated in Norway

17. ASSET DISPOSALS

Disposals

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

The disposal resulted in a profit of US$2.3 million.

18. OTHER NON-CURRENT ASSETS

	Group 2007 US$000	2006 US$000	Company 2007 US$000	2006 US$000
Financial assets	**4,680**	**–**	**4,680**	**–**
Other receivables	**1,224**	**351**	**–**	**–**

Financial assets comprise 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 2007 US$000	2006 US$000	Company 2007 US$000	2006 US$000
Materials and spare parts	6,991	6,785	–	–
	6,991	**6,785**	**–**	**–**

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 2007 US$000	2006 US$000	Company 2007 US$000	2006 US$000
Due within one year:				
Amounts owed by Group undertaking	–	–	115,007	75,984
Other receivables	19,038	30,122	336	136
Prepayments and accrued income	2,868	750	2,030	–
Trade and other receivables	**21,906**	**30,872**	**117,373**	**76,120**
Tax receivable	**3,387**	**31**	**–**	**–**

Other receivables at 31 December 2007 included an upfront deposit payment for the Global Santa Fe drilling rig for Indonesian operations, and significant recoverable amounts from partners in Joint Venture operations in the UK, Indonesia and Spain. Significant receivables have been settled since the year end and management considers that there are no unreasonable concentrations of credit risk within the Group.

21. CASH AND SHORT-TERM DEPOSITS

	Group 2007 US$000	2006 US$000	Company 2007 US$000	2006 US$000
Cash at bank and in hand	11,138	3,075	172	802
Short-term deposits	11,500	74,231	7,000	48,296
	22,638	**77,306**	**7,172**	**49,098**

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 six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The Group only deposits cash surpluses with major banks of high quality credit standing.

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

At 31 December 2007, the Group had available US$15,000,000 of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

22. TRADE AND OTHER PAYABLES

	Group 2007 US$000	2006 US$000	Company 2007 US$000	2006 US$000
Current:				
Trade payables	13,098	20,371	117	135
Other payables	10,506	10,248	1,259	910
Amounts owed to Group undertaking	–	–	5,000	–
	23,604	**30,619**	**6,376**	**1,045**

23. FINANCIAL LIABILITIES

	Group 2007 US$000	2006 US$000	Company 2007 US$000	2006 US$000
Non-current bank loans:				
Variable rate multi-option facility	9,582	–	9,582	–
	9,582	**–**	**9,582**	**–**

Bank loans

On 15 November 2007 the Company entered into a $100 million senior secured revolving credit facility with JPMorgan and the Bank of Scotland.

The current loan has been drawn down under the multi-option facility (MOF) bearing interest at 2.25% above LIBOR. The loan is repayable within 12 months of the balance sheet date, but has been classified as long-term because the Group expects to exercise its rights under the MOF to extend this funding. Such immediate replacement funding is available through to May 2009. The total amount repayable on maturity is £4,870,802 plus any accrued interest. The facility is secured by first charges over certain of the Serica Group's assets which include the shares of certain subsidiary companies.

At 31 December 2007, the Group had available US$15,000,000 of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The Group had available a further US$75,000,000 under the facility under which conditions precedent had not been met as at 31 December 2007. This element of the facility will be used to fund development expenditures for the Kambuna field in Indonesia and the Columbus field in the UK North Sea, as well as for Norwegian appraisal expenditure.

24. FINANCIAL INSTRUMENTS

An explanation of the Group's financial instrument risk management objectives, policies and strategies are set out in the Financial Instruments section of the Management's Discussion and Analysis.

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 2007

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

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

Year ended 31 December 2006

	Within 1 year US$000	1-2 years US$000	Total US$000
Fixed rate			
Short-term deposits	74,231	–	74,231
			74,231
Floating rate financial assets			
Cash	3,075	–	3,075
			3,075

The following table demonstrates the sensitivity of finance revenue 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).

	Increase/ decrease in basis points	Effect on (loss) before tax US$000
2007	+75	456
	-75	(456)
2006	+75	711
	-75	(711)

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 2007

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

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

Year ended 31 December 2006

	Within 1 year US$000	1-2 years US$000	Total US$000
Fixed rate			
Short-term deposits	48,296	–	48,296
			48,296
Floating rate financial assets			
Cash	802	–	802
Short-term deposits	–	–	–
			802

Credit risk

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by 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.

24. FINANCIAL INSTRUMENTS CONTINUED

Foreign currency risk

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

	Group 2007 '000	2006 '000	Company 2007 '000	2006 '000
Cash and cash equivalents:				
Pounds sterling	1,778	4,444	10	2,092
Canadian dollars	234	508	35	38
Norwegian kroner	15,884	–	–	–
Singapore dollars	74	37	–	–
Indonesian rupiah	866,731	381,226	–	–
Euros	52	32	–	–
Accounts receivable:				
Pounds sterling	2,734	5,904	–	–
Norwegian kroner	18,353	–	–	–
Singapore dollars	–	52	–	–
Trade payables:				
Pounds sterling	2,870	5,972	10	16
Canadian dollars	41	15	35	20
Indonesian rupiah	1,407,713	1,940,471	–	10,180
Euros	18	67	30	17
Bank loans:				
Pounds sterling	4,800	–	4,800	–

Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments. In the table below interest rates on variable rate loans have been based on a forward curve. The liability shown is the amount due as at 31 December 2007 gross of associated unamortised financing costs.

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

Fair values of financial assets and liabilities

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

	Book value 2007 US$000	2006 US$000	Fair value 2007 US$000	2006 US$000
Group				
Financial assets/liabilities:				
Cash and deposits	22,638	77,306	22,638	77,306
Financial assets	4,680	–	4,680	–
Other receivables	1,224	351	1,155	331
Bank loans	(9,582)	–	(9,582)	–

	Book value 2007 US$000	2006 US$000	Fair value 2007 US$000	2006 US$000
Company				
Financial assets/liabilities:				
Cash and deposits	7,172	49,098	7,172	49,098
Financial assets	4,680	–	4,680	–
Bank loans	(9,582)	–	(9,582)	–

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.

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, so that it can support its business and create shareholder value. At 31 December 2007, capital employed of the Group amounted to US$125.5 million (comprised of US$115.9 million of equity shareholders' funds and US$9.6 million of borrowings), compared to US$126.0 million at 31 December 2006 (comprised entirely of equity shareholders' funds).

The Group monitors the capital structure and seeks to adjust this as considered appropriate. In Q4 2007 the Group entered into a US$100 million senior secured debt facility and in January 2008 equity shareholders' funds were increased by the raising of a further net US$49 million of capital. Despite the current absence of revenues generated from oil and gas production, the Group begins 2008 in a sound financial position to meet its capital management objectives through utilisation of its existing cash balances and the remaining available funding from its loan facility.

25. EQUITY SHARE CAPITAL

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

On incorporation, the authorised share capital of the Company was £50,000 and US$20,000,000 divided into one 'A' share of £50,000 and 200,000,000 ordinary shares of US$0.10 each, two of which were issued credited as fully paid to the subscribers to the Company's memorandum of association. The ordinary 'A' share has no special rights.

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 2006	142,548,580	14,345	134,400	148,745
Incremental issue costs	–	–	(27)	(27)
Options exercised	40,000	4	31	35
Warrants exercised	7,949,376	795	7,735	8,530
As at 1 January 2007	150,537,956	15,144	142,139	157,283
Options exercised (i)	1,110,001	111	1,477	1,588
As at 31 December 2007	**151,647,957**	**15,255**	**143,616**	**158,871**
Company				
As at 1 January 2006	142,548,580	14,345	99,128	113,473
Incremental issue costs	–	–	(27)	(27)
Options exercised	40,000	4	31	35
Warrants exercised	7,949,376	795	7,735	8,530
As at 1 January 2007	150,537,956	15,144	106,867	122,011
Options exercised (i)	1,110,001	111	1,477	1,588
As at 31 December 2007	**151,647,957**	**15,255**	**108,344**	**123,599**

(i) From 1 January 2007 until 31 December 2007, 1,110,001 employee share options were converted to ordinary shares at prices ranging from Cdn$1.00 to Cdn$2.00.

26. ADDITIONAL CASH FLOW INFORMATION

Analysis of Group net cash

	1 January 2007 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2007 US$000
Cash	3,075	8,063	–	11,138
Short-term deposits	74,231	(62,731)	–	11,500
	77,306	**(54,668)**	**–**	**22,638**

Analysis of Company net cash

	1 January 2007 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2007 US$000
Cash	802	(630)	–	172
Short-term deposits	48,296	(41,296)	–	7,000
	49,098	**(41,926)**	**–**	**7,172**

27. SHARE-BASED PAYMENTS

Share Option Plans

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

Serica Energy Corporation ("Serica BVI") was previously the holding company of the Group but, following the Reorganisation, is now a wholly owned subsidiary of the Company. Prior to the Reorganisation, Serica BVI issued options under the Serica BVI Option Plan and following the Reorganisation the Company has agreed to issue ordinary shares to holders of Serica BVI Options already awarded upon exercise of such options in place of the shares in Serica BVI to which they would be entitled. There are currently options outstanding under the Serica BVI Option Plan entitling holders to acquire up to an aggregate of 2,722,499 ordinary shares of the Company. No further options will be granted under the Serica BVI option plan.

The Company has granted 5,322,000 options under the Serica 2005 Option Plan, 5,067,000 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.

In December 2005, 330,000 options were awarded to executive directors exercisable only if certain performance targets are met. 110,000 of these were cancelled during Q2 2007. In August 2007, 1,200,000 options were awarded to non-executive directors exercisable only if certain performance targets are met. The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain performance targets) to estimate the fair value of share options at the date of grant. The estimated fair value of options is amortised to expense over the options' vesting period. US$1,962,000 has been charged to the income statement in the year ended 31 December 2007 and a similar amount credited to other reserves.

The assumptions made for the options granted during 2005, 2006 and 2007 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.

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

	2007 Number	2007 WAEP Cdn$	2006 Number	2006 WAEP Cdn$
Outstanding as at 1 January	3,975,833	1.57	4,212,500	1.57
Cancelled during the year	(143,333)	1.63	(196,667)	1.93
Exercised	(1,110,001)	1.58	(40,000)	1.00
Outstanding as at 31 December	2,722,499	1.57	3,975,833	1.57
Exercisable as at 31 December	2,155,833	1.58	2,339,444	1.58

Serica 2005 option plan

		£		£
Outstanding as at 1 January	2,516,000	1.01	696,000	0.97
Granted during the year	2,661,000	1.01	1,965,000	1.02
Cancelled during the year	(110,000)	0.97	(145,000)	1.02
Outstanding as at 31 December	5,067,000	1.00	2,516,000	1.01
Exercisable as at 31 December	989,000	1.00	113,667	0.97

28. COMMITMENTS UNDER OPERATING LEASES

Operating lease agreements where the Group is lessee

At 31 December 2007 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 2007 US$000	2006 US$000	Company 2007 US$000	2006 US$000
Not later than one year	381	344	–	–
After one year but not more than five years	472	595	–	–
	853	**939**	**–**	**–**

29. CAPITAL COMMITMENTS AND CONTINGENCIES

In 2007 the Company contracted the Sedco 704 drilling rig for 96 days during 2007 and 2008 for UK & NW Europe operations. As at 31 December 2007 the Company have a commitment for a remaining 40 days at a gross cost of US$13.5 million. The operations currently identified for use of the rig are ventures where joint venture partners are expected to pay a share of the costs.

At 31 December 2007, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation, and development assets amounted to US$4.6 million for the Group and US$nil for the Company. (2006 – US$nil and US$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, over the next twelve months as follows:

Year ending 31 December 2008 US$43,442,000

These obligations reflect the Group's share of interests in the defined work programmes and are not formally contracted at 31 December 2007. 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$5.2 million of cash collateral (US$4.7 million included as a financial asset (restricted cash) and US$ 0.5 million included within the cash and short-term deposits as at 31 December 2007).

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.

31. POST BALANCE SHEET EVENTS

On 7 January 2008 the Company announced the completion of a placing of 24,770,354 new ordinary shares to the AIM Market and the TSX-V in Canada. The new ordinary shares were placed with institutional and other investors on behalf of the Company by JPMorgan Cazenove and Tristone Capital. The total funds raised for the Company were approximately US$52 million before expenses.

Notes:

1 Reserves relate solely to the Kambuna field in Indonesia and revisions include changes to the field development plan that affect the ratio of gas and liquids to be produced and revised field mapping based on a new 3D seismic survey.

GROUP PROVED PLUS PROBABLE RESERVES

Working interest basis

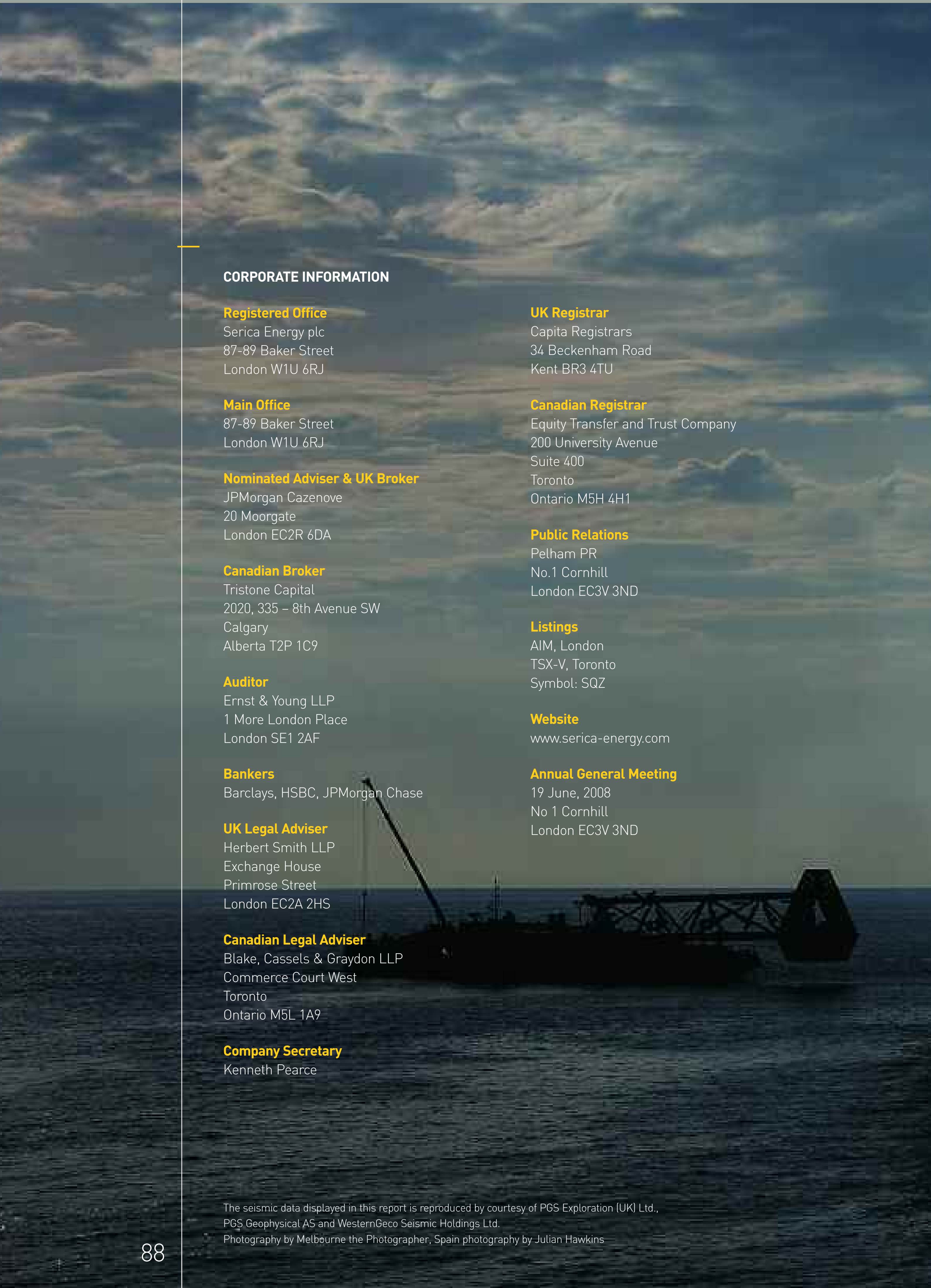
	Western Europe		South East Asia				Total
	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil & gas mmboe
At 1 January 2007	0	0	7.5	56.1	7.5	56.1	16.9
Revisions[1]	0	0	(1.1)	21.5	(1.1)	21.5	2.4
Production	0	0	0	0	0	0	0
At 31 December 2007	**0**	**0**	**6.4**	**77.6**	**6.4**	**77.6**	**19.3**
Proved developed	0	0	0	0	0	0	0
Proved undeveloped	0	0	4.0	48.7	4.0	48.7	12.1
Probable developed	0	0	0	0	0	0	0
Probable undeveloped	0	0	2.4	28.9	2.4	28.9	7.2
At 31 December 2007	**0**	**0**	**6.4**	**77.6**	**6.4**	**77.6**	**19.3**

Proved and probable reserves are based on independent reports prepared by consultants RPS Energy in accordance with the reserve definitions of the Canadian Oil and Gas Evaluation Handbook.

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. On an entitlement basis proved plus probable reserves increased by 1.3 mmboe giving total entitlement reserves of 13.9 mmboe as at 31 December 2007 (2006: 12.6 mmboe). This was calculated in 2007 using a Kambuna condensate price assumption of US$93.51/bbl (2006: US$60.90/bbl) and gas prices in accordance with known contract terms (2006: $3.10/mcf).

GLOSSARY

bbl	barrel of 42 US gallons
bcf	billion standard cubic feet
bopd or bpd	barrels of oil or condensate per day
FPSO	Floating Production, Storage and Offtake vessel (often a converted oil tanker)
LNG	Liquefied Natural Gas (mainly methane and ethane)
LPG	Liquefied Petroleum Gas (mainly butane and propane)
mcf	thousand cubic feet
mmbbl	million barrels
mmboe	barrels of oil equivalent (oil condensate and LPG plus the heating equivalent of gas converted into barrels at a rate of 6,000 standard cubic feet per barrel)
mmBtu	million British Thermal Units
mmscfd	million standard cubic feet per day
PSC	Production Sharing Contract
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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