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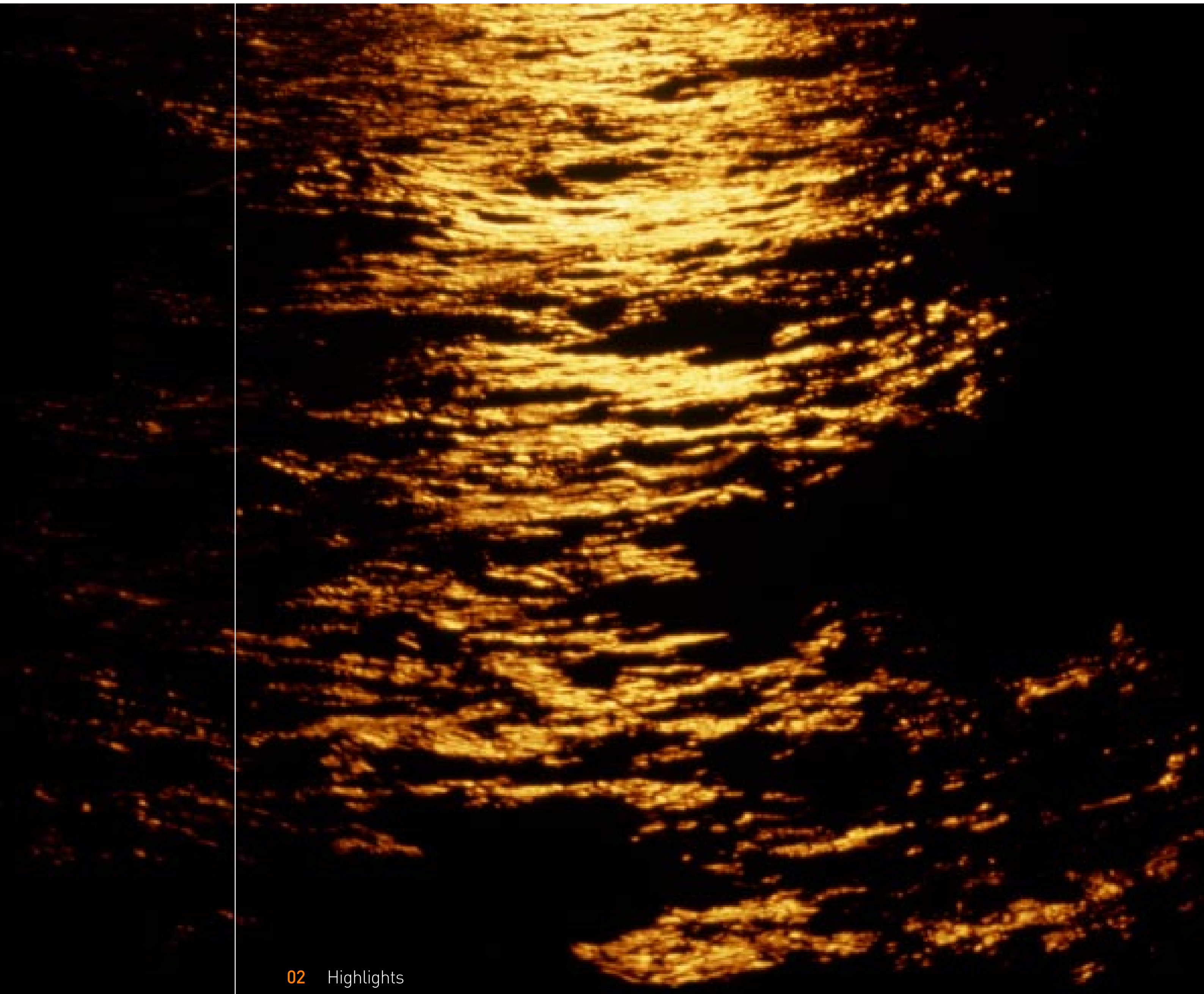
SERICA ENERGY

Serica Energy plc is an international oil and gas exploration company with operations in the UK, Norway, Spain, Ireland, Indonesia and Vietnam. The Company's shares are listed on AIM in London and on the Canadian TSX Venture Exchange under the symbol SQZ.



HIGHLIGHTS IN 2006

Operational

- Two exploration wells drilled in the UK North Sea: Oak and Columbus
- Both wells were discoveries and produced hydrocarbons on test
- The Columbus discovery is potentially significant and under appraisal
- New acreage in the UK, Norway, Ireland, Vietnam and Indonesia
- New Norwegian acreage includes the unappraised Bream oil discovery
- 3D seismic survey completed over Kambuna field.

Financial

- Year end net current assets of US$84.4 million and no debt
- Well funded for forward programme
- Booked Kambuna reserves of approximately 12.6 million boe.

Forward programme

- UK North Sea – Columbus appraisal Q3 2007
- Indonesia – two Biliton exploration wells Q3 2007
- Indonesia – two Kambuna development wells Q4 2007
- Drilling rigs secured for above programme
- Kambuna field development – first production scheduled for 2008
- Seismic surveys in Kutai PSC Indonesia and Block 06/94 Vietnam.

Note

Since the release of the Company's Annual Report and Accounts on 29 March 2007, the Company has received confirmation of the termination of the Asahan Offshore PSC. Alternative proposals were submitted to the Indonesian government in January 2007 to enable the Company and its co-venturers to continue exploration work in the area under new terms and these proposals are now being discussed.

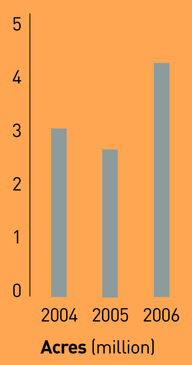
FINANCIAL SUMMARY FOR 2006

Company net oil and gas reserves	**Proven and probable 2006**	Proven and probable 2005
At 31 December		
Gas – million cubic feet	**41,800**	70
Condensate & LPG – barrels	**5,680,000**	765
Total – barrels of oil equivalent[1]	**12,647,000**	12,430

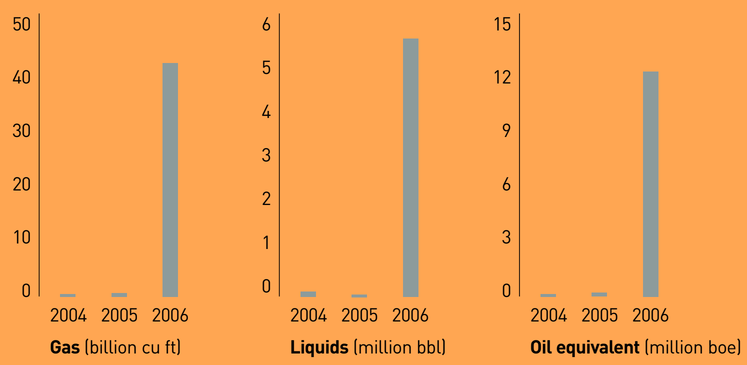
[1] Gas converted at 6,000 standard cubic feet per barrel LPG converted at 10 barrels per tonne.

Financial position		
Market capitalisation	**US$324 million**	US$264 million
Net current assets	**US$84 million**	US$99 million
Cash	**US$77 million**	US$110 million
Number of shares in issue	**150,537,956**	142,548,580
Number of shares fully diluted	**157,029,789**	155,406,456

Gross acreage



Net proven plus probable reserves



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
23/16e	Exploration	Operator	50%	Central North Sea
23/16f [1]	Columbus appraisal	Operator	25%	Central North Sea
23/16g	Exploration	Operator	50%	Central North Sea
23/21 (part) [1]	Columbus appraisal	Partner	25%	Central North Sea
23/17b	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				
407	Bream appraisal	Partner	20%	Egersund Basin
406	Exploration	Partner	20%	Egersund Basin
Spain				
Abiego	Exploration	Operator	100%	Pyrenees/Ebro Basin
Barbastro	Exploration	Operator	100%	Pyrenees/Ebro Basin
Binéfar	Exploration	Operator	100%	Pyrenees/Ebro Basin
Peraltilla	Exploration	Operator	100%	Pyrenees/Ebro Basin
Indonesia				
Glagah Kambuna TAC	Kambuna development	Operator	65%	Offshore North Sumatra
Asahan Offshore PSC [2]	Tanjung Perling appraisal	Operator	55%	Offshore North Sumatra
Biliton PSC	Exploration	Operator	45%	Offshore Java Sea
Kutai PSC	Exploration	Operator	52.5%	Kutai Basin
Vietnam				
Block 06/94	Exploration	Partner	33.3%	Nam Con Son Basin

[1] Percentage interests are subject to completion of the transaction with BG under which Serica will reduce its 50% interest in Block 23/16f to 25% in exchange for a 25% interest in part Block 23/21.

[2] Serica's interest in the Asahan Offshore PSC is subject to the successful conclusion of current negotiations with the Indonesian authorities regarding the commerciality of the PSC.

Testing the Columbus discovery well – 5:30am 18 December 2006
The Columbus well test had been delayed for several days due to the very poor weather conditions but, after lighting the flare in the early hours of 18 December, it was soon clear that we had made a significant gas-condensate discovery. Flaring the hydrocarbons produced during an offshore well test is the only way to obtain sufficient data from a discovery well – data on which a multi-million dollar development decision will soon have to be made.

2006 was a year of progress on all fronts. We discovered Columbus – a significant gas-condensate field in the North Sea – and we added new acreage in five countries, taking our exploration holdings to over 4 million gross acres. Serica now operates the Kambuna field development in Indonesia and the potential Columbus development in the North Sea, a remarkable position for a relatively new independent exploration company.

Tony Craven Walker
Chairman

CHAIRMAN'S STATEMENT

Serica started 2006 with a clear forward programme. Our objectives were to demonstrate early drilling success on existing prospects and to increase our opportunities in both the North Sea and South East Asia with the addition of new prospective acreage. I am delighted to report that success was achieved on both fronts. In the North Sea, the positive outcome of the Columbus well has more than confirmed the value and potential of our blocks and has resulted in the discovery of a significant new gas-condensate field at a time when UK gas production is declining.

We were also rewarded in our applications for new acreage. Our portfolio increased considerably over the year with the addition of new blocks in Ireland, Norway, the UK, Vietnam and Indonesia. The Norwegian award is particularly encouraging since, in addition to being highly prospective, it includes a 20% interest in the undeveloped Bream oil discovery which we believe is already sufficiently well defined to warrant early appraisal and possible development.

At Serica, we are very conscious of the need to manage risk and maintain a balance in our portfolio, not only to take account of the large geological and technical risks inherent in our business, but also to be aware of our exposure to different operating regimes and how this might change as our business develops. Serica has a significant business in South East Asia but our drilling success in the North Sea and the addition to our portfolio of new offshore blocks in the UK and Norway over the course of the past year have materially increased the value and importance of the North Sea to the Company. We now have a very attractive position, with fields under appraisal or development in each of our two core areas, and a highly prospective acreage portfolio.

In parallel with our exploration programme we aim to build up our production base. As discussed in the Chief Executive Officer's Review the development of the Kambuna field in Indonesia has encountered some delay but we still expect production to commence in 2008. In the North Sea we are now hopeful that successful appraisal of Columbus this year will enable us to bring forward an early North Sea development to add to our forward production profile.

Serica's progress in 2006 has been largely due to the skill and commitment of the Serica team and illustrates the considerable experience and expertise which we now have in the Company. I and my co-directors are appreciative of the efforts that they have made. At director level, Chris Atkinson stood down at the end of the year in order to be able to spend more time on exploration and is now acting as Exploration Advisor to the Board. The Company's exploration achievements, particularly in South East Asia, owe much to Chris's expertise and his contribution in bringing the Company to this point has been immeasurable. In addition, Jim Steel, having helped the Company considerably during its early start-up years has also decided to retire as a non-executive director during the course of this year and it is our intention to add two new non-executives to the Board to assist the Company through the next stage of its development. We are extremely grateful and appreciative to Jim for the contribution that he has made to the Company.

In summary, 2006 was a year in which Serica has been able to demonstrate its ability to add shareholder value. We are now the operator of a field in the North Sea, Columbus, as well as the Kambuna field in Indonesia and have a highly prospective acreage bank to explore. Our success in the North Sea makes us very much a leading North Sea player amongst the junior companies and complements our growing South East Asia business. 2007 will bring its challenges but I believe that Serica is in a strong position to build on the foundations we have laid in 2006. With drilling and development planned for both the UK and Indonesia we have an active and exciting year ahead of us.

Tony Craven Walker
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

I am pleased to report that much progress has been made in 2006 towards establishing Serica as a leading independent oil and gas exploration company. During the course of the year the Company considerably expanded its acreage portfolio, resulting in a substantial improvement in the balance of our holdings and diversification into new but geographically and technically related areas. We have built a technical team that has demonstrated, through the successful outcome to our UK drilling programme and the award of several attractive new licence blocks, real ability and expertise. This has all been achieved against the background of a very competitive market for staff, drilling rigs and offshore services.

The major highlight for the year was the Columbus discovery in North Sea Block 23/16f which tested gas at a rate of 17.5 million scfd plus 1,000 bopd of condensate. This is a significant discovery and is likely to bring considerable value to the Company. The field appears to extend into Block 23/21 to the south, operated by BG International Limited (BG), and a farm-out and acreage exchange with BG has enabled Serica both to reduce its well costs and to have a 25% interest in both the northern and southern parts of the field. Serica is the operator of Block 23/16f and is in discussions with partners on the most appropriate appraisal programme, planned to commence this summer, for which Serica has secured the SEDCO 704 drilling rig. The field lies close to existing infrastructure and is likely to be developed by subsea tie-back, without the need for a supporting offshore platform.

In addition to Columbus, the Oak well drilled by Serica in North Sea Block 54/1b also flowed hydrocarbon gas on test. During the test, the well flared at a rate of 10 million scfd. However, later analysis indicates that the gas contains a material proportion of inert components and, as a result, the discovery is unlikely to be commercial. These were Serica's first wells in the North Sea and the fact that they were drilled and tested efficiently in severe winter weather conditions speaks volumes for the ability of Serica's operations team.

During the year our applications for new licences were extremely successful. We were awarded interests in three new offshore licences in the UK, two licences offshore Norway, one offshore Ireland, a PSC offshore Vietnam and a PSC in the prolific Kutai Basin of East Kalimantan, Indonesia, straddling offshore and onshore acreage. All of this new acreage lies close to, or contains, existing discoveries. In Norway the Company was subject to an extensive qualification process with the Norwegian authorities to demonstrate technical and financial ability. The result was the award of two highly contested blocks, one of which contains the undeveloped Bream oil discovery.

Our bidding strategy in each case has been very focussed, with applications only being made for a very limited number of targeted blocks. It is extremely gratifying that we were awarded such a high percentage of the blocks for which we submitted applications during the year. With the exception of the awards in Norway and Vietnam, Serica is the operator of each of the blocks awarded, enabling us to continue to manage the exploration phase of our licences.

In Indonesia, severe rig shortages, coupled with delays in the approval of our Plan of Development, meant that we were not able to commence drilling operations to test the small Tanjung Perling gas field, slated for possible development in the Asahan Offshore PSC, or to drill additional prospects in the block, prior to the end of the Exploration Period of the PSC in December 2006. As a result we are now in discussions with the Indonesian authorities to agree an appropriate way forward to enable operations to continue into the second phase of the Asahan Offshore PSC. In view of the uncertainty of the outcome of these discussions we are expensing the costs which are associated with the PSC in this year's financial statements. These largely relate to the Togar 1A well drilled in 2005 which we announced at the time as a non-commercial gas discovery and which we are therefore unlikely to wish to retain in any forward programme.

On the Kambuna gas-condensate field in the neighbouring Glagah Kambuna TAC, a delay in the arrival of the vessel to acquire the 3D seismic survey, necessary for full delineation of the field, contributed to slippage in the field development programme. Preliminary interpretation of the 3D survey has indicated that the field consists of two separate accumulations, the second of which still requires appraisal before reserves can be included. This has necessitated a revision to the Kambuna development plan to accommodate full appraisal of the north-western extension. We now plan to develop the field in two phases with production from the field scheduled to commence in the second half of 2008.

At the turn of the year, RPS Energy plc (RPS) was commissioned by the Company to review Serica's hydrocarbon resources following the drilling of the Columbus well. It is our policy not to book hydrocarbon resources as proven reserves until we have sanctioned a development plan and, in cases where there is not an existing defined gas market, until we have signed a Heads of Agreement for gas sales with a purchaser. The RPS report has classified the Kambuna field as probable reserves and estimates that the gross probable reserves of the field are 25.7 million boe, of which the Company's net entitlement is 12.6 million boe. This excludes any additional resources that could result from a successful test of the north-west extension.

RPS has also estimated that, on a most likely basis, the Columbus discovery has added 8.4 million boe to Serica's contingent hydrocarbon resources, based on Serica's 25% interests in Block 23/16f and part of Block 23/21. Clearly this early estimate will have to be borne out by appraisal drilling planned for this year but reserves of this size in the North Sea are very commercial. The addition of the Bream oil discovery through our recent Norwegian licence award also provides further opportunity for us to increase our reserve base. With negotiations at an advanced stage for the sale of Kambuna gas, appraisal drilling scheduled for Columbus, work expected to start on Bream and consideration being given to drilling a second well on Chablis, we have a high expectation of being able to move more contingent resources into the category of proven and probable hydrocarbon reserves this year.

2006 was a rewarding year for Serica; one in which we saw the Company add real value and achieve many of the targets that we set at the beginning of the year. It is our objective this year to demonstrate the potential of the Columbus area, including the evaluation of options for early production, as well as completing the appraisal of the Kambuna field and moving the Kambuna development forward. Our exploration efforts will be focused on the potential of the new blocks that we have been awarded and of the surrounding areas.

We are very conscious of the need to conserve our cash resources and will continue to seek partners for those projects where we consider that the financial exposure is too great for Serica notwithstanding the upside potential of the project. We are fortunate to have high percentage interests in, and to be the operator of, most of our licences, which gives us a considerable advantage in attracting partners whilst still retaining a level of participation that would have a material impact on Serica in the case of success.

This was demonstrated in 2006 with the financial contributions received through farm-out of both the Oak and Columbus prospects. More recently, we have announced the successful farm-out of our interest in the Biliton block in Indonesia, thereby reducing the risk of drilling in this frontier area whilst still retaining a high exposure to a successful outcome. We aim to continue this strategy in 2007 but will also be keeping a watching brief on other opportunities to improve the potential for shareholder return which we expect to arise during the year.

Paul Ellis
Chief Executive Officer

Paul Ellis

Overview

Serica holds exploration, appraisal and development interests in some of the major oil and gas provinces of Western Europe and South East Asia. In Europe, the Company has licences in the UK North Sea, the East Irish Sea, Norway, Ireland and Spain. In South East Asia, Serica has production sharing contracts in Indonesia and Vietnam.

In 2006 Serica continued its run of drilling success with two discovery wells in the UK North Sea on blocks operated by the Company. One of these wells was the Columbus gas-condensate discovery, drilled in December in a block that Serica operates and that had been awarded only twelve months earlier. An independent assessment has estimated that the Columbus field has most likely contingent hydrocarbon resources of 33.5 million boe. Serica intends to commence Columbus appraisal drilling in the summer of 2007.

As a result of applications made during 2006, the Company was awarded offshore exploration licences in the UK, Ireland, Norway, Indonesia and Vietnam. Serica's entry into Norway resulted in the award of a 20% interest in two highly sought after blocks, one of which contains an undeveloped oil discovery, Bream, with gross oil in place estimated by the Company to be in the range of 250 to 400 million barrels, of which 40 to 100 million barrels may be recoverable.

Shortages of equipment, particularly seismic acquisition boats and drilling rigs, continue to affect the Company's ability to carry out its work programmes. Despite these issues, Serica carried out a 3D seismic survey in Indonesia and drilled two wells in the UK North Sea during the year and has contracted drilling rigs to meet its drilling programme for 2007.

CEO'S REVIEW – WESTERN EUROPE

UNITED KINGDOM

Block 14/15a

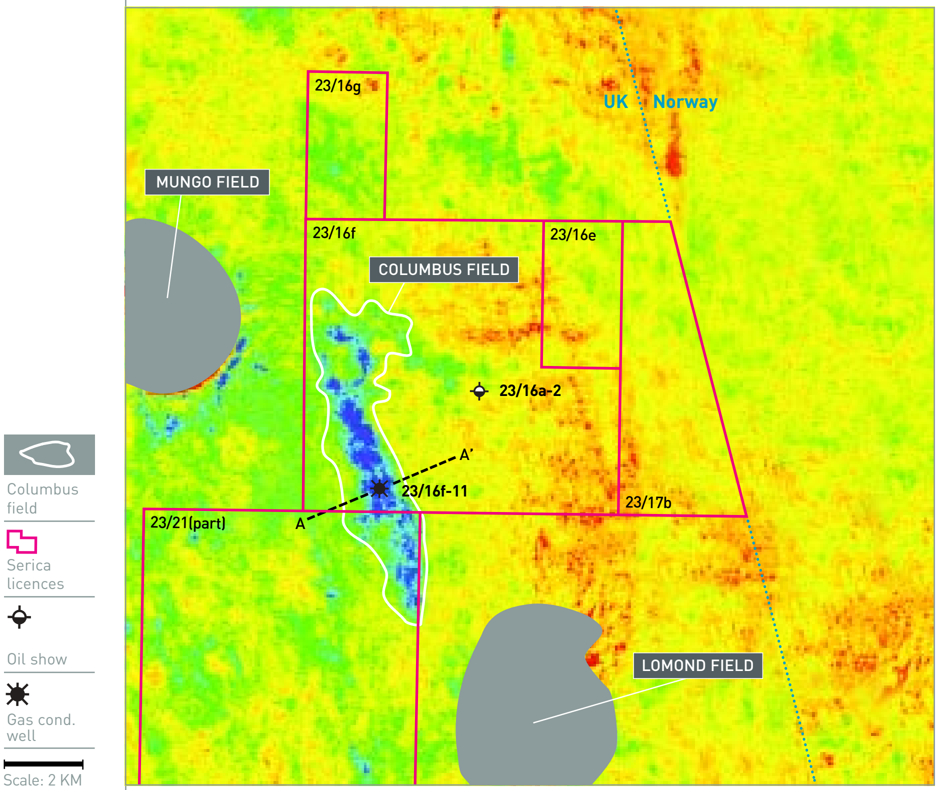
This block covers an area of approximately 108 square kilometres in the Central North Sea. Serica is the block operator and has a 50% interest. Several leads have been identified at Upper Jurassic, Lower Cretaceous and Paleocene levels within this prospective part of the Outer Moray Firth Basin. The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

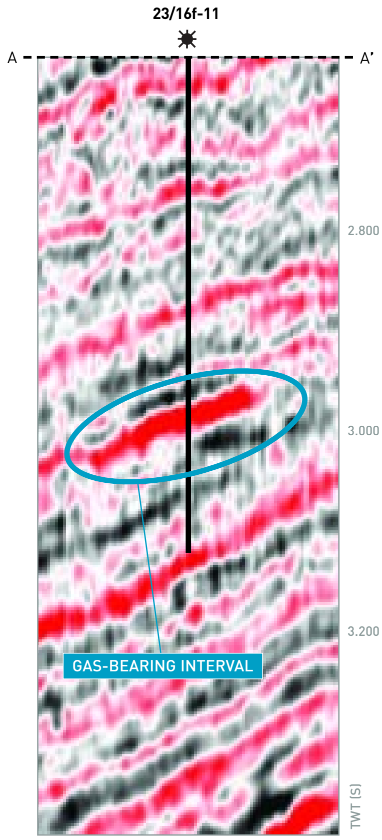
Columbus discovery area – Blocks 23/16e, 23/26f, 23/16g, 23/17b and 23/21(part)

These blocks cover an area of approximately 214 square kilometres in the Central North Sea. Serica holds interests of 25% or 50% in each of these blocks and is the operator of each block except for Block 23/21. Block 23/16g was recently awarded to Serica in the UK 24th Offshore Licensing Round.

The blocks are contiguous and form part of Serica's strategy to exploit its detailed knowledge of modern 3D seismic processing techniques, particularly in the Tertiary reservoirs of the Central North Sea, with the aim of increasing the chances of exploration success. In furtherance of this strategy, in October 2006 a well was drilled to test the Columbus prospect in Block 23/16f. Well 23/16f-11 reached a final depth of 10,116 feet subsea and encountered a gross gas column of 125 feet in the Paleocene Forties sands. A total of 85 feet of the reservoir was tested and the stabilised average production rates on a 56/64 inch choke during a five hour flow period were 17.5 million scfd and 1,060 bopd of 47.5 degrees API condensate. The wellhead flowing pressure was 1,200 pounds per square inch and the inert gas content was less than 2%.

Amplitude map and seismic data of the Columbus discovery area





Columbus was discovered through the use of special processing and interpretation of 3D seismic data, using techniques which Serica has developed. Columbus is a stratigraphic trap, a field defined only by the colouring of a seismic amplitude map, as shown above. The seismic section on the right illustrates how the gas-bearing Forties sands were identified.

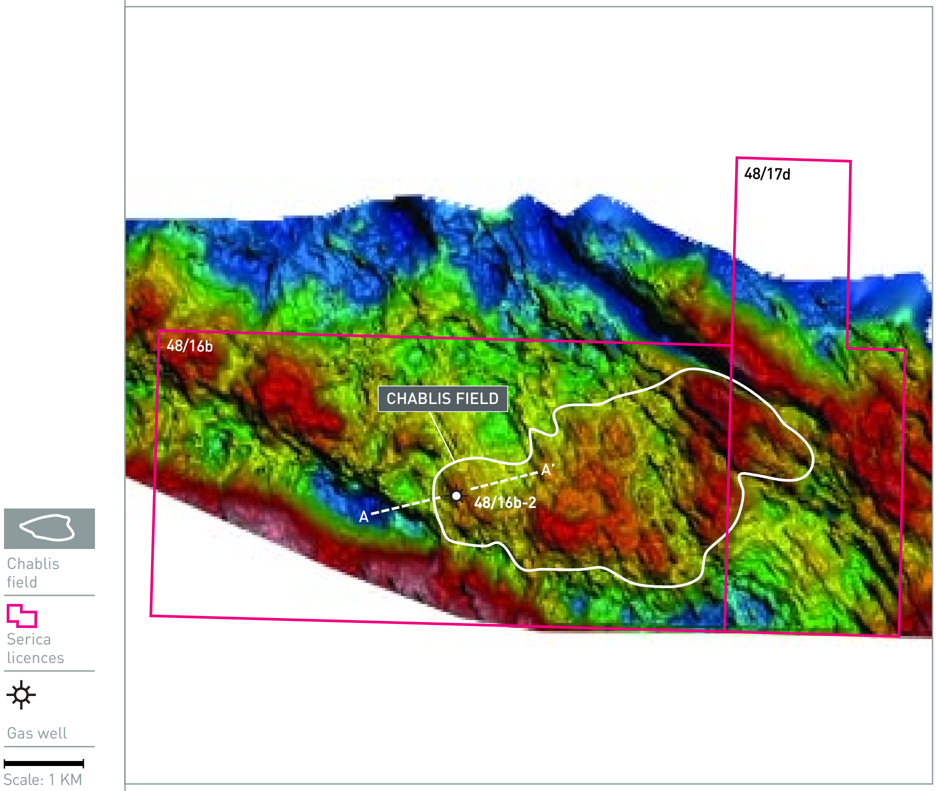
Prior to drilling Columbus, Serica established that the prospect extended into the adjacent Block 23/21 in which, at that time, Serica held no interest. Consequently, Serica invited the operator of Block 23/21, BG International Limited (BG), to enter into a farm-in and cross-assignment under which Serica exchanged a 25% interest in Block 23/16f for a 25% interest in part of Block 23/21 (excluding the Lomond field) and BG contributed to the costs of the 23/16f-11 well. This transaction will enable the field to be appraised and developed far more expeditiously than if there had been no common interests between the two blocks.

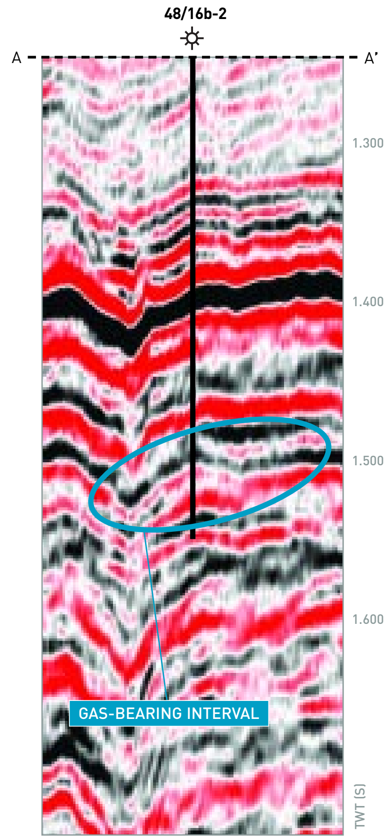
On a most likely basis, an independent engineer's report on Columbus attributes contingent hydrocarbon resources net to Serica of 8.4 million boe, based on Serica's 25% interests in Block 23/16f and part of Block 23/21.

Serica plans to drill a vertical well to appraise the Columbus discovery in the summer of 2007 and expects to follow this up with a horizontal well in order to obtain representative production rate data for development planning. Depending upon the results achieved, the horizontal well will be completed for use as a production well. Serica has secured the SEDCO 704 semi-submersible drilling rig for Columbus appraisal drilling, commencing in July/August 2007.

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 including a possible tie-in to the producing Lomond gas-condensate field, which lies about six kilometres from the Columbus discovery well.

Structure map and seismic data of the Chablis discovery area





The Chablis field has been, in industry terms, a teaser from day one. The discovery well, drilled by Conoco in 2002, was not tested, but it is clear that gas was discovered and independent resource estimates indicate that the field may contain anywhere from 30 bcf to 500 bcf of recoverable gas.

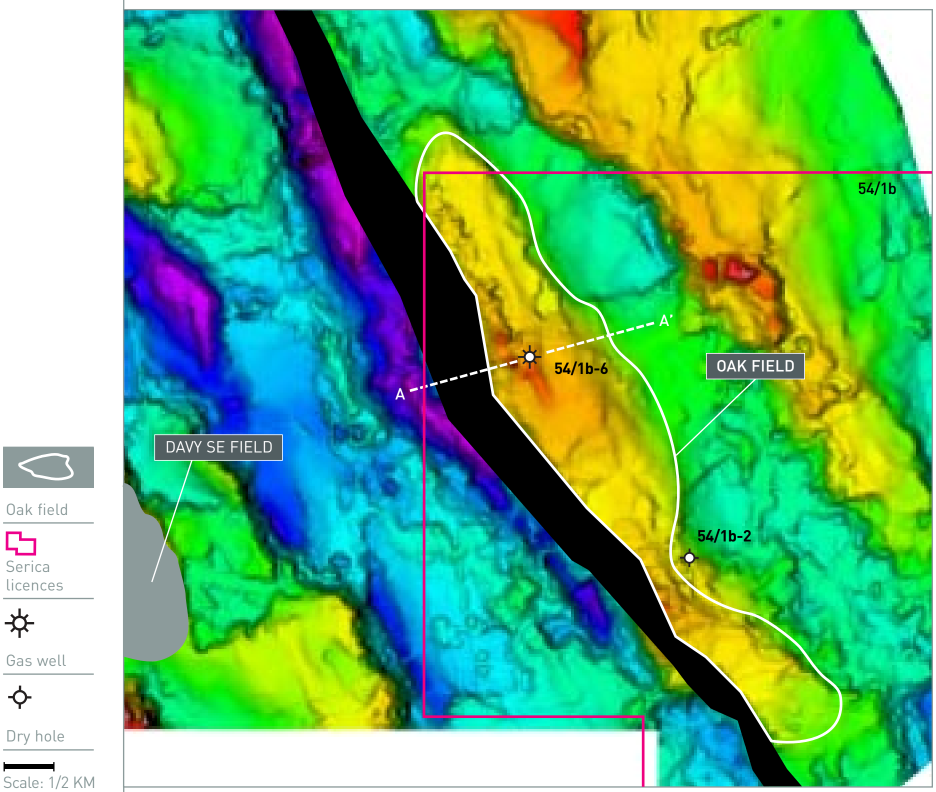
UNITED KINGDOM (CONTINUED)

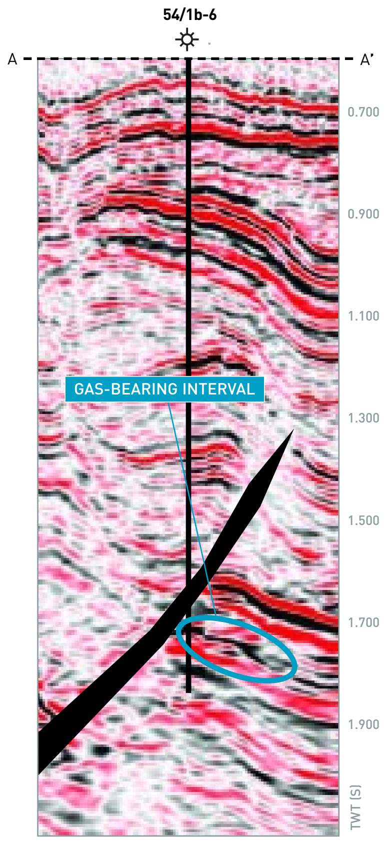
Chablis discovery area – Blocks 48/16b and 48/17d

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 48/17d was awarded to Serica in the UK 24th Offshore Licensing Round and may potentially contain part of the Chablis accumulation. During 2006 Serica relinquished Blocks 47/20b and 48/16a as no prospects of material size had been identified in these blocks.

There are several environmental and technical issues surrounding the appraisal and potential development of the Chablis field that need to be addressed prior to drilling and a comprehensive feasibility report has therefore been commissioned that is due to be completed early in 2007.

Structure map and seismic data of the Oak discovery area





The discovery of the Oak field proved, ultimately, to be a disappointment. Serica's studies of the 3D seismic data indicated a gas accumulation updip of the unsuccessful 54/1b-2 well and this was demonstrated by the gas produced on test from Serica's discovery well 54/1b-6. Only later was it established that over 50% of the gas is made up of carbon dioxide and nitrogen.

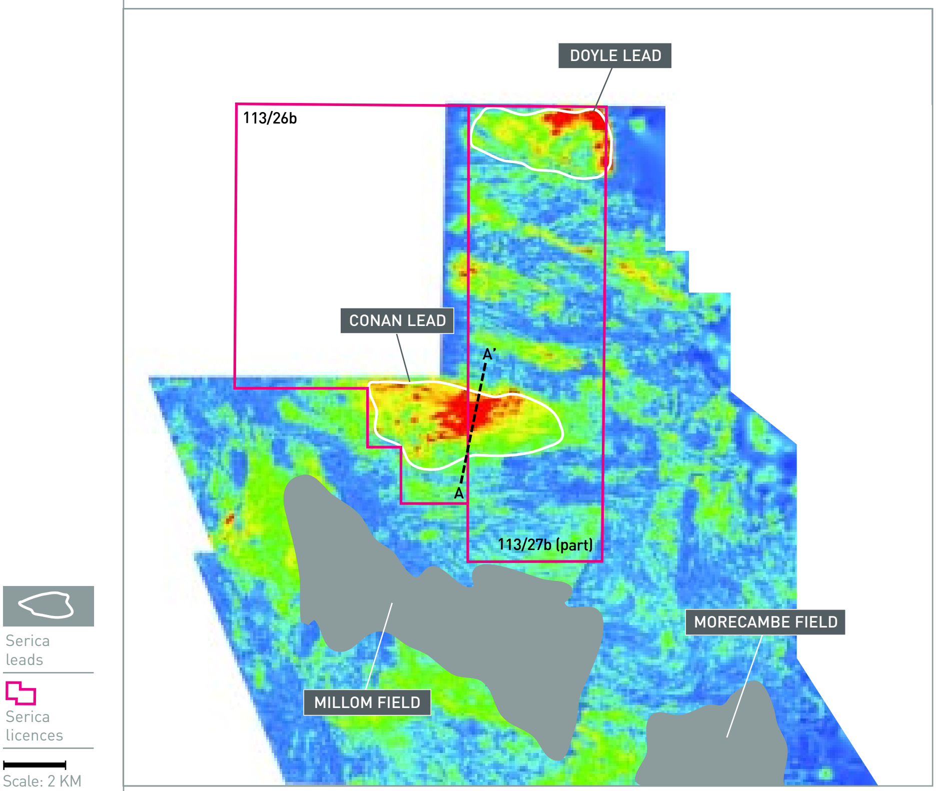
Oak discovery area – Block 54/1b

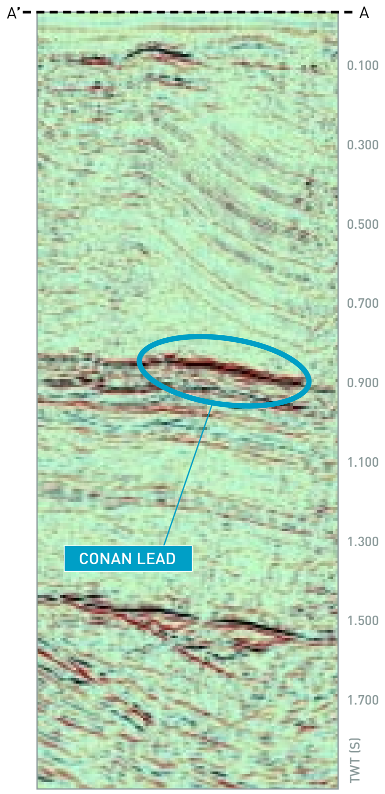
Block 54/1b covers an area of 106 square kilometres in the Southern Gas Basin. Serica is operator of the block and holds a 50% interest.

Prior to drilling the 54/1b-6 exploration well to test the Oak prospect, Serica farmed out half of its original 100% interest to Centrica Resources Limited (Centrica) in order to reduce Serica's cost and risk. Under the terms of the farm-out agreement, Serica's dry-hole risk relating to the well was largely borne by Centrica.

Serica commenced drilling well 54/1b-6 in October 2006 and the well reached its final depth of 8,318 feet subsea in November. A gas-bearing Leman sandstone reservoir with a gross gas column of 113 feet was encountered and a production test was carried out on an interval of 80 feet. A stabilised gas flow rate of approximately 10 million scfd was recorded on a 44/64 inch choke. However, subsequent laboratory analysis of gas samples taken during the test indicates that a significant proportion of the gas is made up of inert components and the Company now feels that it is unlikely that the Oak discovery can be produced commercially in the foreseeable future.

Amplitude map and seismic data of the East Irish Sea block





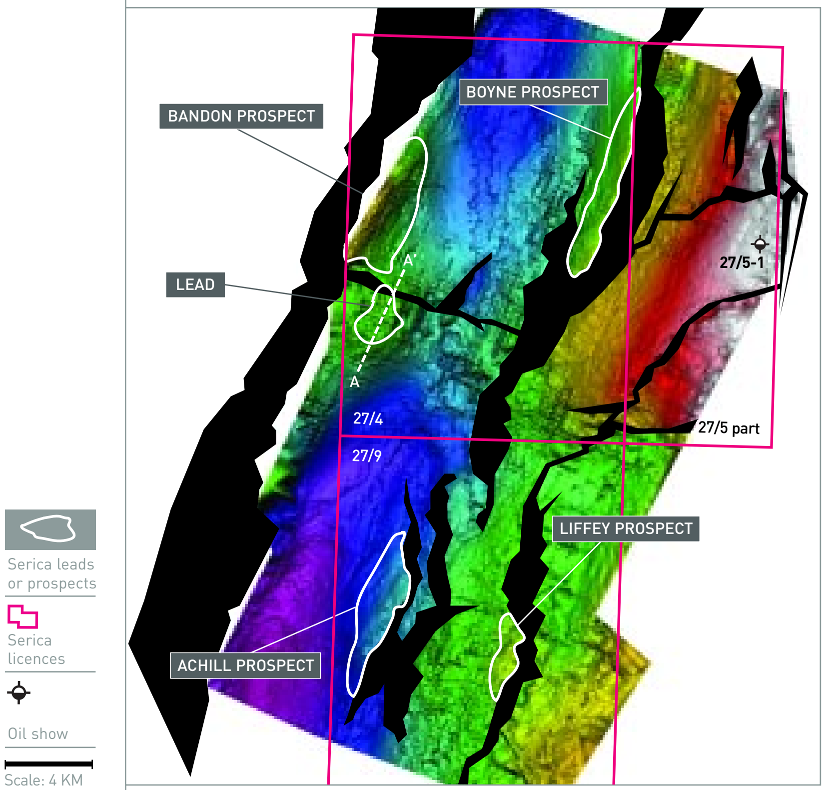
The map shows the Conan and Doyle leads in the East Irish Sea. In industry terms, a 'lead' is a promising feature on which further work needs to be done before it becomes a 'prospect', an area worthy of drilling. Serica will now use its proven seismic processing and interpretation methodology to mature these leads into prospects.

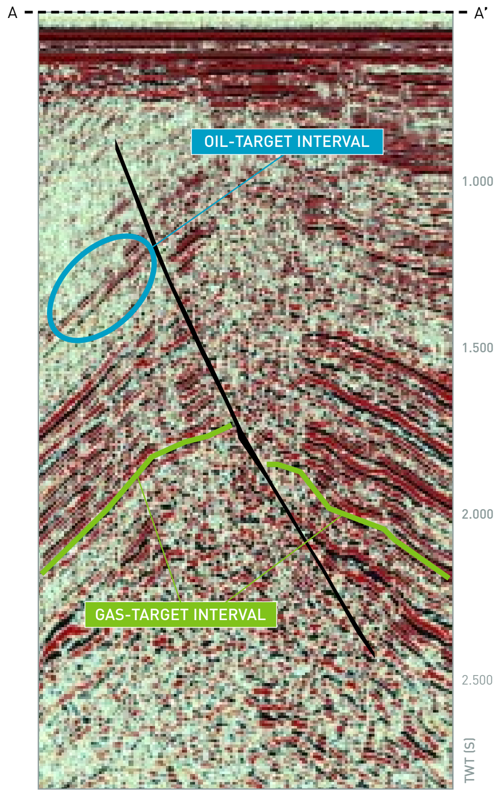
UNITED KINGDOM (CONTINUED)

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

Serica was awarded these blocks in the UK 24th Offshore Licensing Round. The blocks cover an area of 145 square kilometres and lie immediately to the north of the Millom field and within 10 kilometres of the Morecambe field – the UK's largest gas field. Serica has identified a number of leads on these blocks and will be reprocessing the 3D seismic data in order to define prospects for drilling. The prospective reservoir is the Sherwood Sandstone of Triassic age that is also the producing reservoir in the Morecambe field.

Structure map and seismic data of the Irish prospects





IRELAND

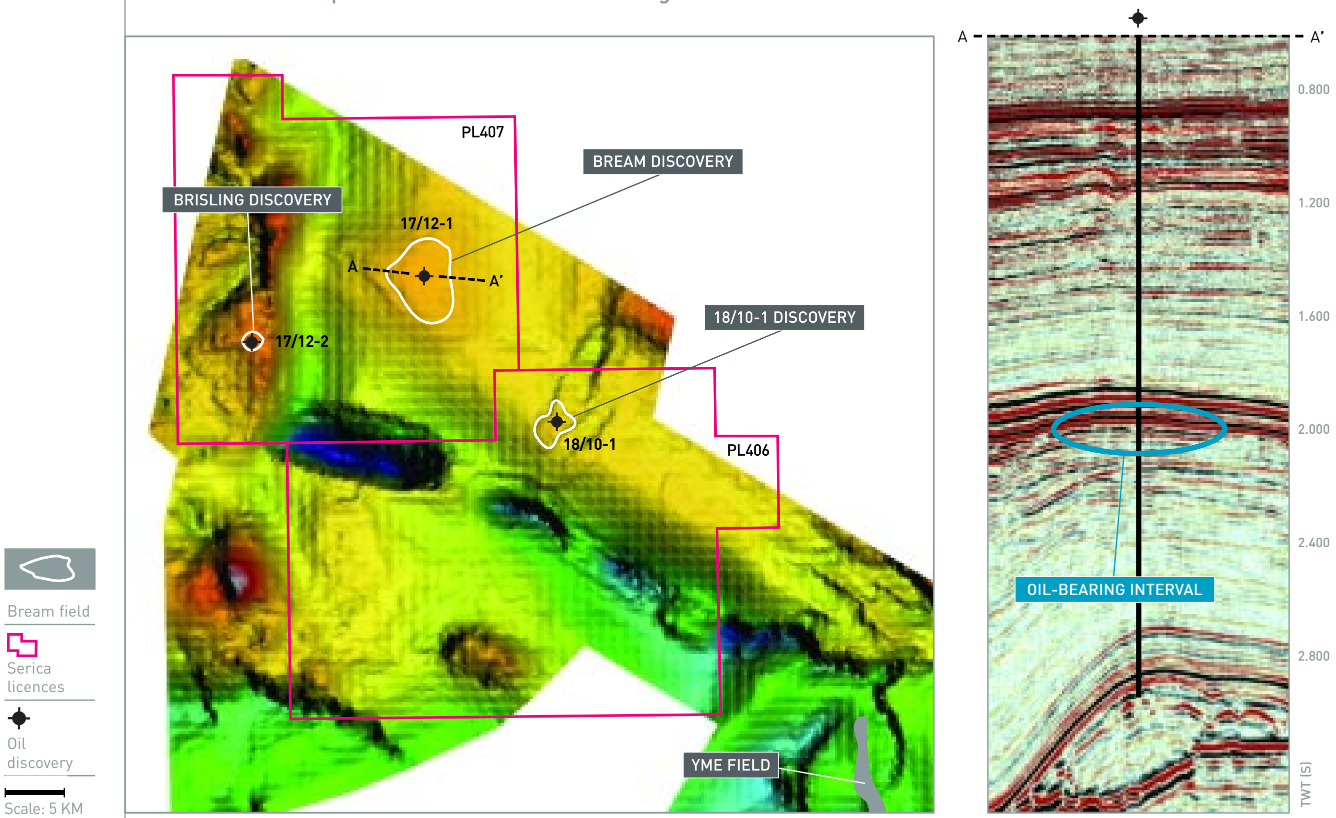
Serica's entry into Ireland was based on the experience and expertise of our exploration team, some of whom had worked on the Corrib prospect when it was part of Enterprise Oil's portfolio. Now under development by Shell, the Corrib discovery reduces the exploration risk for Serica's prospects in the PEL 01/6 Licence.

Blocks 27/4, 27/5 (part) and 27/9

In the 2006 Irish Offshore Licensing Round, Serica was awarded Licence PEL 01/6 containing Blocks 27/4, 27/5 (part) and 27/9 which cover an area of 611 square kilometres in the Slyne Basin off the west coast of Ireland. Serica is operator and holds a 100% interest in the Licence.

The blocks are covered by existing modern 3D seismic data and Serica will be reprocessing this data to assess the prospectivity of the blocks. Prospects have been identified by Serica in the Triassic sands that have proven to be gas bearing and productive in the Corrib gas field, which lies about 40 kilometres to the north and is currently under development by Shell. When Serica's technical evaluation of the 3D seismic data is complete, a decision to drill an exploration well will be considered.

Structure map and seismic data of the Norwegian licences



NORWAY

Serica was delighted to be awarded licence interests in the Norway APA 2006 Round. The Bream field area includes some of the most highly sought after acreage in the Round and could prove to be highly valuable to the Company. To have been awarded a block containing Bream, a proven oil discovery in what is a new country for Serica, is a tribute to the skills and strategies of our exploration team.

Licence 407 and Licence 406

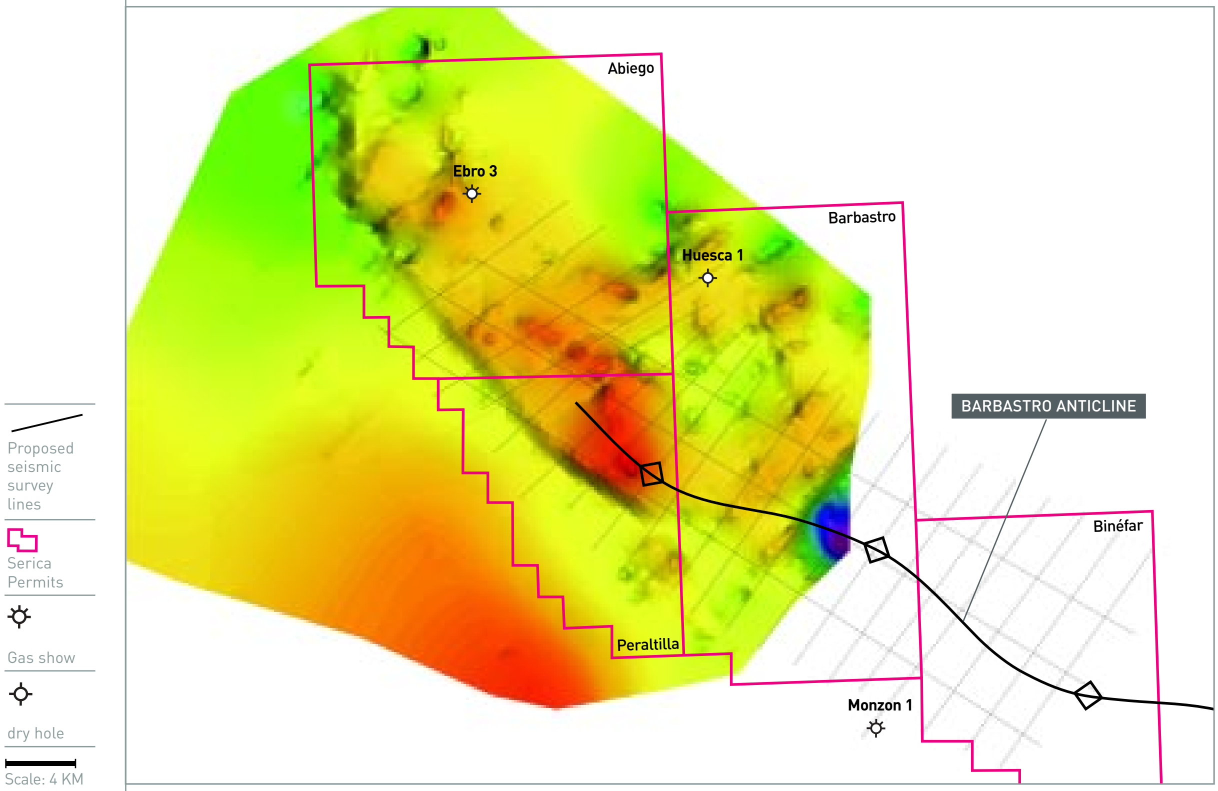
Serica was awarded a 20% interest in both of these offshore licences in Norway's 2006 Awards in Predefined Areas (APA) Licence Round. The licences are contiguous and lie in the Egersund Basin, about 120 kilometres southwest of the port of Stavanger, Norway's fourth largest city.

The southern licence, Licence 406, covers an area of approximately 900 square kilometres comprising parts of licence blocks 8/3, 9/1, 17/12, 18/10 and 18/11 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 Bream field in Licence 407.

The northern licence, Licence 407, covers an area of approximately 725 square kilometres comprising parts of licence blocks 17/8, 17/9, 17/11, 17/12, 18/7 and 18/10. 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. These discoveries remain undeveloped since they were not considered to be commercial at the time and the area has not been open for licensing for many years.

Serica has carried out an analysis of recently acquired 3D seismic data covering the Bream discovery and estimates that, using modern drilling and completion technology, including horizontal production wells, the potentially recoverable oil reserves of the Bream field may lie within a range of 40 to 100 million barrels, based on an oil in place estimate of 250 to 400 million barrels. Serica expects a Bream appraisal well to be drilled in Licence 407 early in 2008 with a view to submitting a development plan to the Norwegian authorities by the end of that year.

Structure map of the Spanish Permits



SPAIN

The Company holds a 100% interest in the Abiego, Barbastro, Binéfar and Peraltilla exploration Permits onshore northern Spain, approximately 40 kilometres southeast of the Serrablo gas field. 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.

An initial evaluation of the four Permits has been completed and it has been concluded that additional 2D seismic data will need to be acquired in order to delineate prospects for drilling. Serica intends to carry out a short seismic acquisition test programme early in 2007 in order to determine the acquisition parameters for a full survey. It is the Company's intention to seek a partner to participate in the exploration of the Permits

Our prospects in Spain lie mainly in the area of the surface feature known as the Barbastro anticline, a feature that has not yet been explored below the thrust sheets of the Pyrenees. Even acquiring a seismic survey is challenging in this centre of viniculture. The real challenge will be drilling a rank wildcat well and being the first company to explore the sub-thrust prospectivity.

CEO'S REVIEW – SOUTHEAST ASIA

INDONESIA

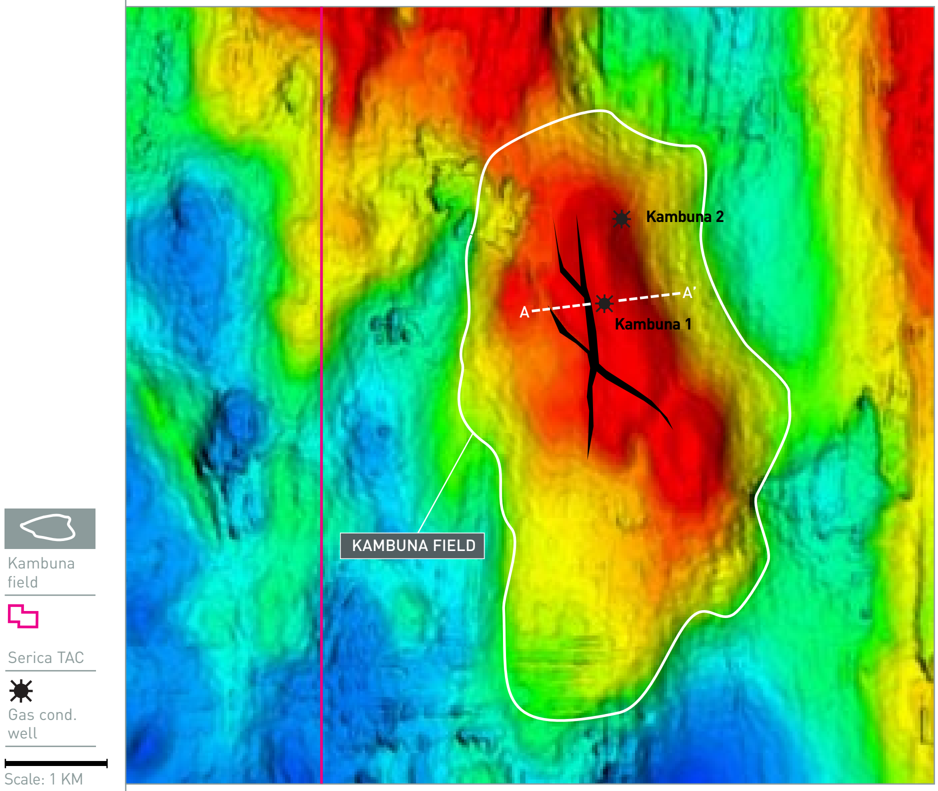
Glagah Kambuna

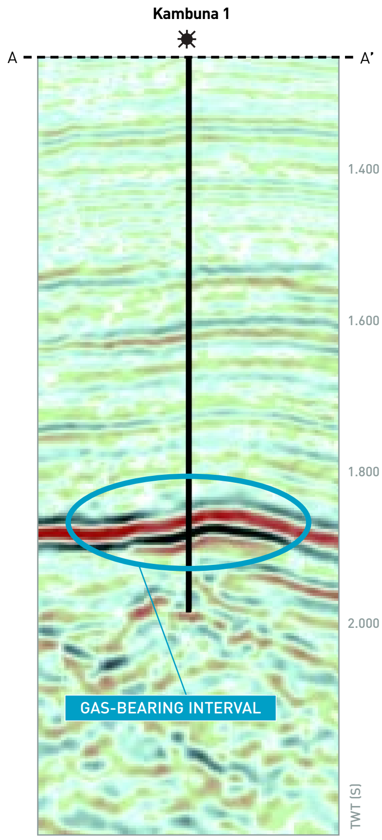
The Glagah Kambuna Technical Assistance Contract (TAC) covers an area of approximately 380 square kilometres and lies offshore North Sumatra adjacent to the Asahan Offshore PSC. Serica has a 65% working interest and operates the TAC.

The TAC contains the undeveloped Glagah 1 and Kambuna 1 discovery wells and a successful appraisal well drilled by Serica in 2005, Kambuna 2. Serica is progressing the development of the gas-condensate bearing Upper Belumai Sand reservoir of the Kambuna field and a Plan of Development was approved by the state oil and gas company Pertamina in 2006. Acquisition of the 430 square kilometres 3D survey over the Kambuna field and parts of the Asahan Offshore PSC was not completed until the end of the year due to the late arrival of the seismic survey vessel. Final processing is now underway and should be completed in the second quarter of 2007.

Interpretation by Serica of the preliminary fast-track processing of the 3D seismic data indicates that some of the field gas and liquid contingent resources, identified by consultants Gaffney Cline & Associates in 2005, may lie within a Lower Belumai Sand reservoir just to the north-west of the main area of the Kambuna field. This upside would be classified as prospective resources since no well has yet been drilled in what may prove be a separate accumulation. Serica's interpretation has, to a large extent, been confirmed by an independent report on the Kambuna field commissioned from consultants RPS Energy plc (RPS) and has resulted in a revision to the field development plan to enable the north-west area to be appraised and the field to be developed in two phases, with the first phase scheduled to commence production in late 2008.

Structure map and seismic data of the Glagah-Kambuna TAC





The map shows the recent 3D seismic survey acquired by Serica over the Glagah Kambuna TAC. The results are still being analysed but indicate that the Kambuna gas accumulation may extend beyond the present outline of the Kambuna field and may include additional sands connected to the main accumulation. It is likely that an appraisal well will be drilled later this year as part of the field development programme.

The RPS report estimates that the gross probable reserves of the main area of the Kambuna field are 25.7 million boe. Serica has secured the Seadrill 5 drilling rig to carry out appraisal and development drilling in the third or fourth quarter of 2007 and is now progressing the final front-end engineering design studies. Gas and liquid sales negotiations are proceeding with several interested parties, including Pertamina, the state oil and gas company, which operates a refinery and gas liquids plant in the area.

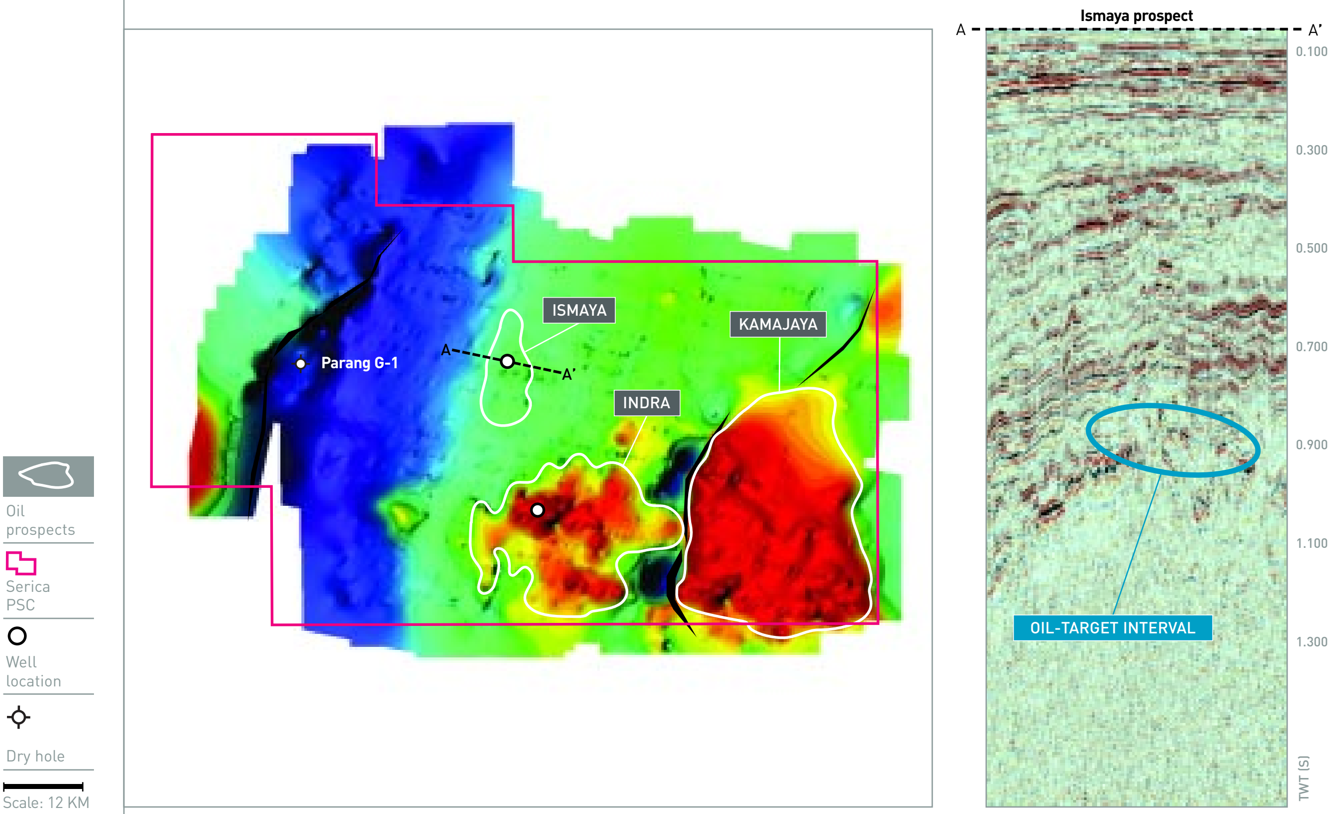
Asahan Offshore

The Asahan Offshore Production Sharing Contract (PSC), offshore North Sumatra, lies immediately adjacent to the Glagah Kambuna TAC. Serica has a 55% interest and is the operator of the PSC.

In 2006, Serica submitted a Plan of Development for the Tanjung Perling gas field, which lies in the south of the PSC. The aim was to develop the field in conjunction with the Kambuna field and thereby achieve economies of scale. However, the Indonesian Executive Agency for Upstream Oil and Gas Business, BPMigas, requested additional data in support of the development plan. That data could only be obtained by drilling a new well in the field and, with no drilling rigs active in the area, this could not be achieved prior to the end of the exploration period on 16th December 2006.

Operations in the PSC have therefore been suspended while negotiations with the Indonesian authorities continue regarding the commerciality of the PSC and its consequent continuation into the 20 year exploitation period. Assuming a successful outcome to these negotiations, Serica intends to carry out a drilling programme in the second half of 2007 using the Seadrill 5 rig.

Structure map and seismic data of the Biliton PSC



INDONESIA (CONTINUED)

Serica's traditional exploration strategy is to secure large interests in major acreage positions in prospective basins and to add value through seismic acquisition and processing. The Company then aims to attract an industry partner to share the drilling costs, thus giving Serica a low failure cost but with exposure to significant upside on success.

Biliton

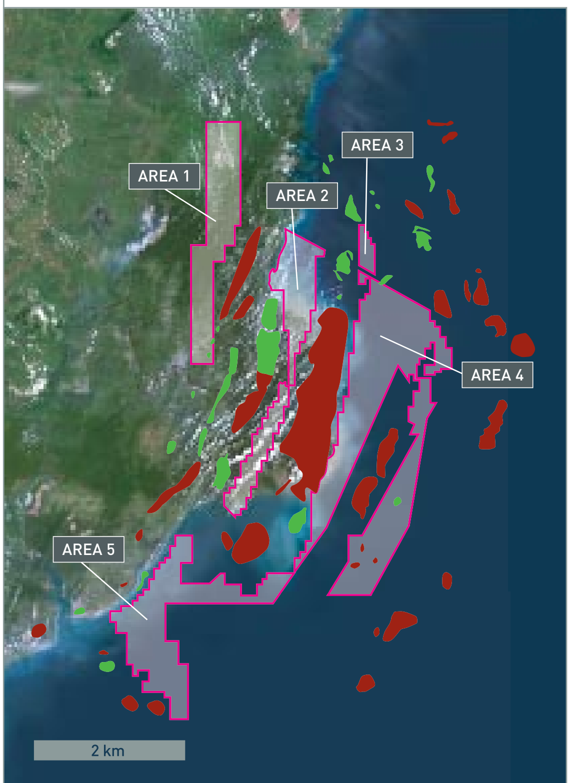
The Biliton PSC covers an original area of approximately 3,940 square kilometres in the Java Sea between the Indonesian islands of Java and Kalimantan. Serica, which operates the PSC, is presently negotiating the area to be relinquished under the terms of the PSC. The prospective parts of the PSC will be retained by Serica within the retained area.

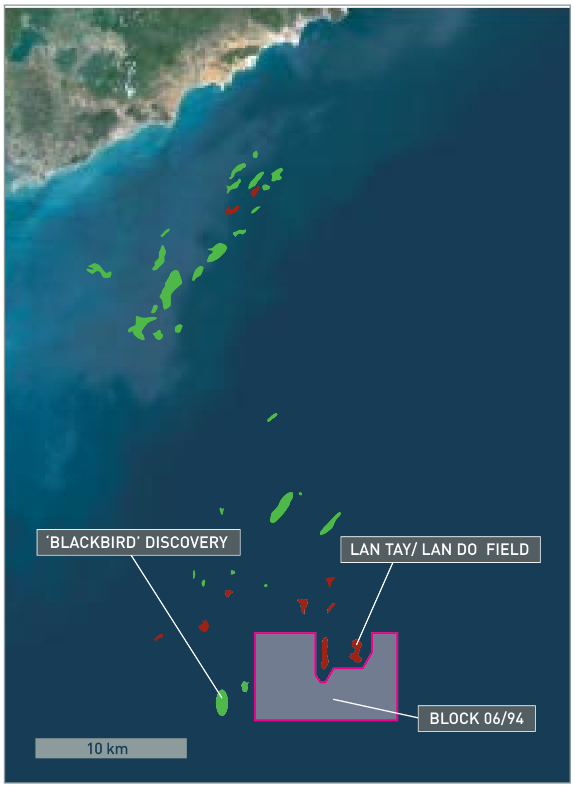
Serica has recently entered into a farm-out agreement under the terms of which Nations Petroleum will earn a 45% interest in the Biliton PSC by paying a contribution to Serica's back costs and bearing the majority of the costs of drilling two wells in the PSC in 2007. Following the completion of this agreement, Serica will have a retained 45% interest in the PSC.

The Biliton PSC lies in a virtually unexplored Indonesian basin with many of the characteristics of analogous basins nearby that have to date produced substantial volumes of oil and gas. Only one exploration well has been drilled in the area, the Parang-G1 well drilled by Ashland Petroleum in 1974. Although this well did not find reserves of oil or gas it did encounter oil shows. In 1990, British Petroleum carried out a seabed survey that indicated the presence of nine oil seeps within the current block boundary. Both the shows in the well and the seep information demonstrate that hydrocarbons have been generated within the area.

Serica has acquired a total of approximately 4,500 line kilometres of 2D seismic data in the PSC and has identified several large prospects that could be oil-bearing. Drilling locations in the Biliton PSC have been selected and two exploration wells will be drilled in the second quarter of 2007 using the Seadrill 5 rig.

Serica's oil and gas interests in Kutai and Block 06/94 Vietnam





Serica PSC

Oil field

Gas field

INDONESIA (CONTINUED)

Kutai

In December 2006, Serica was awarded the Kutai PSC, which covers an area of approximately 4,700 square kilometres within the prolific Kutai Basin of East Kalimantan. Serica is the operator and holds a 52.5% 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 million boe) and Attaka (800 million boe), in the prolific Mahakam River delta both onshore and offshore. The adjacent major fields on the shelf were mainly discovered in the late 1960s and 1970s. To date the area has produced over two billion barrels of oil and 20 trillion cubic feet of gas and is currently providing over four bcf of gas per day to the Bontang LNG facility.

Serica will be acquiring new seismic data to augment the existing 2D and 3D seismic data set, in order to assess the prospectivity of the block and determine drilling locations.

VIETNAM

Block 06/94

In July 2006, Serica was awarded Block 06/94, in the Nam Con Son Basin offshore South Vietnam. The block covers an area of approximately 4,100 square kilometres. Serica has a 33.33% interest in the block, which is operated by Pearl Energy.

The block lies approximately 350 kilometres offshore and is the part of Block 06/1 which British Petroleum was contractually obliged to relinquish in 1994 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.

Block 06/94 is the Company's first expansion of its interests in Southeast Asia outside Indonesia. In December 2006, the operator of the adjacent Block 12/E, Premier Oil, announced that its 'Blackbird' discovery well had been tested at a combined 5,900 bopd from two sands. Serica expects to be able to identify both oil and gas prospects within Block 06/94.

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 2006.

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 centred on the UK North Sea and Indonesia, with other interests in Norway, Spain, Ireland and Vietnam. The Group has no current oil and gas production, following the disposal of its Harimau Field interest, with the main emphasis placed upon its future exploration drilling programmes and near term developments. During 2006, work has continued on managing its portfolio of interests, advancing the Indonesian development and completing a successful drilling programme in the UK North Sea. Two operated wells were completed in the UK North Sea and both were gas discoveries.

Well 23/16f-11, an exploration well drilled on the Columbus prospect in the UK Central North Sea, encountered a gross gas column of at least 125 feet in the Paleocene Forties sands. Testing of the Columbus well confirmed the presence of a potentially commercial gas and condensate reservoir. A total of 85 feet of the reservoir was tested and the stabilised average production rates on a 56/64 inch choke during a five hour flow period were 17.5 million cubic feet of gas per day and 1,060 barrels per day of 47.5 degrees API condensate. The wellhead flowing pressure was 1,200 pounds per square inch and the inert gas content was less than 2%. These good flow rates demonstrated commercial potential and the well has been suspended for possible future use in a development programme.

Well 54/1b-6, an exploration well drilled on the Oak prospect in the UK Southern North Sea, encountered a gas bearing Leman sandstone reservoir with a gross gas column of 113 feet. A production test was carried out on an 80 foot interval and a stabilised gas flow rate of approximately 10 million standard cubic feet per day was recorded on a 44/64 inch choke. Laboratory analysis of the gas indicates that it contains material quantities of inert components and the Company believes that the accumulation is unlikely to be commercial. The well was plugged and abandoned.

In Indonesia, Serica acquired an additional 10% interest in the Glagah-Kambuna Technical Assistance Contract ('TAC') from PT Gunakarsa Glagah-Kambuna Energi subject to the necessary government approvals. The consideration of US$4.5 million was payable in cash. Following this transaction Serica's interest in the TAC and the Kambuna Field will be 65%. Serica also disposed of its 10% interest in the Lematang Production Sharing Contract, which contains the almost depleted Harimau Field and the undeveloped Singa gas field, to Lundin Petroleum AB for a cash consideration of US$5 million.

In the Asahan Offshore PSC, approval was not received from the Indonesian authorities for the development of the small Tanjung Perling gas field prior to the end of the Exploration Period of the PSC on 16 December 2006. Serica is in discussions with the Indonesian authorities to agree an appropriate way forward to enable operations to continue into the second phase of the PSC. In view of the uncertainty on the outcome of these discussions, costs associated with the Asahan Offshore PSC have been written off in this year's financial statements. These costs largely relate to the Togar 1A well drilled in 2005 which was announced at the time as a non-commercial gas discovery, and which we are therefore unlikely to wish to retain in any forward programme.

OVERALL PERFORMANCE CONTINUED

In 2006, Serica was awarded an exploration licence offshore Ireland, and Production Sharing Contracts in Indonesia and Vietnam.

In the 2006 Irish Offshore Licensing Round, Serica was awarded a licence over Blocks 27/4, 27/5 (part block) and 27/9 which cover an area of approximately 611 square kilometres in the Slyne Basin off the west coast of Ireland. Serica is the operator and will hold a 100% interest in the licence. These blocks are already covered by modern 3D seismic data and Serica will be reprocessing around 300 square kilometres of this data as part of its work programme to assess the prospectivity of the blocks in the first phase of the licence. If Serica elects to proceed to the second phase of the licence it will drill at least one exploration well.

In Indonesia, Serica was awarded the Kutai Production Sharing Contract covering an area, both onshore and offshore, of approximately 4,729 square kilometres within the prolific Kutai Basin of East Kalimantan. Serica is the operator of the PSC and will hold a 52.5% interest in the block. Serica's partner, PT Ephindo, will hold the remaining 47.5% interest. The PSC contains several previously drilled wells that successfully established the presence of hydrocarbons. Serica will be acquiring a limited amount of new 2D and 3D seismic to augment the pre-existing seismic data set as part of its work programme to assess the prospectivity of the block which will also include the drilling of up to four exploration wells.

In Vietnam, Serica was awarded Block 06/94 in the Nam Con Son Basin offshore south Vietnam. Serica and its two partners, Lundin Petroleum and Pearl Energy, each have a 33.33% interest in the Block, which covers an area of around 4,100 square kilometres and will be operated by Pearl. Block 06/94 lies approximately 350 kilometres offshore and is the part of Block 06/1 which British Petroleum was obliged to relinquish in 1994 after retaining the Lan Tay and Lan Do gas fields for development. The Lan Do gas field commenced gas production in 2002.

Since the year end, Serica has been awarded new licences in both the UK and Norway. 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. One of the licences contains the undeveloped Bream oil discovery.

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

RESULTS OF OPERATIONS

Serica generated a loss of US$14.4 million for 2006 compared to a loss of US$10.5 million for 2005. The 2005 figures have been restated to take account of the revised accounting treatment for share purchase warrants outstanding at 31 December 2005.

	2006 US$000	2005 (1) US$000
Sales revenue	**61**	**124**
Expenses:		
Administrative expenses	(6,641)	(4,877)
Foreign exchange gain/(loss)	1,715	(463)
Pre-licence costs	(4,205)	(695)
Asset write offs	(12,870)	–
Share-based payments	(1,918)	(1,013)
Change in fair value of share warrants	1,154	(6,405)
Depletion, depreciation & amortisation	(95)	(30)
Operating loss before finance revenue and tax	(22,799)	(13,359)
Gain on disposal	2,311	–
Finance revenue	4,931	526
Loss before taxation	**(15,557)**	**(12,833)**
Taxation credit	1,182	2,309
Loss for the year	**(14,375)**	**(10,524)**
Basic and diluted loss per share (US$)	(0.10)	(0.13)

(1) As restated – See note 30 of the financial statements

Revenues from oil and gas production are recognised on the basis of the Company's net working interest in its properties. Revenues throughout each period were generated from Serica's 10% interest in the Harimau producing gas and gas condensate field. These revenues are from discontinued operations following the disposal of the Lematang PSC interest in 2006. Direct operating costs for the field during these periods were carried by Medco Energi Limited.

RESULTS OF OPERATIONS CONTINUED

Administrative expenses of US$6.6 million for 2006 increased from US$4.9 million for 2005. The general increase from 2005 reflects the growing scale of the Company's activities over the past twelve months.

A significant foreign exchange gain of US$1.7 million was earned in 2006. This chiefly arose from the increase in US$ equivalent value of those pounds sterling cash deposits held to cover UK licence commitments and administrative expenditures expected in sterling, 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 significant increase in the charge from US$0.7 million in 2005 to US$4.2 million in 2006 is largely caused by data acquisition costs as part of the Norway licence applications (US$2.7 million) and a focus on new ventures in Vietnam and Indonesia (US$0.5 million).

Asset write offs of US$12.9 million comprise US$12.7 million in regard to the Asahan Offshore PSC and the Q3 2006 US$0.2 million charge against relinquished licences relating to the non core UK North Sea licence P1180, Blocks 48/16a and 47/20b. The Q4 Asahan Offshore PSC asset write offs include charges against exploration and evaluation assets (US$10.3 million), goodwill (US$0.7 million), inventory (US$0.6 million) and related long term other receivables (US$1.1 million).

Share-based payment costs of US$1.9 million reflect share option grants made during the course of 2004, 2005 and 2006 and compare with a cost of US$1.0 million for 2005. The increase from last year is due to share options granted in the second half of 2005 and early 2006 as the management team was built up.

The change in fair value of share warrants in 2005 is a restatement to reflect evolving interpretation of the treatment of such instruments under the recently adopted International Financial Reporting Standards. This has arisen due to the difference in the denominated currency of the warrants compared to Serica's functional currency. The loss in 2005 was created as the fair value of warrants not exercised increased due to the rise in share prices over the year and as further warrants were issued in the year. In 2006 a gain is recorded, as the fair value of warrants outstanding as at 31 December 2005 fell prior to their exercise in 2006. This has no cash impact on reported results. More detail is provided in note 30 of the financial statements.

Negligible depletion, depreciation and amortisation charges for 2005 and 2006 represent office equipment only. Those costs of petroleum and natural gas properties classified as exploration and evaluation assets are not currently subject to such charges pending further evaluation.

A profit on disposal of US$2.3 million in Q2 2006 was generated on the sale of the 10% interest in the Lematang PSC to Lundin Petroleum AB for US$5 million.

Finance revenue, comprising interest income of US$4.9 million for 2006, compares with US$0.5 million for 2005. The increase from last year is due to the significant cash deposit balances held following the AIM listing and associated fund raising in December 2005.

The taxation credit of US$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$0.7 million). Expenditures during 2005 and 2006 have reduced any potential current income tax expense arising for the year to US$ nil.

The net loss per share decreased from US$0.13 to US$0.10 with the increase in the net loss for the year, compared to 2005, being offset by the greater increase in the number of shares in issue during 2006.

SUMMARY OF QUARTERLY RESULTS

Quarter ended:	31 Mar US$000	30 Jun US$000	30 Sep US$000	31 Dec US$000
2006				
Sales revenue	25	36	–	–
(Loss)/profit for the quarter (1)	1,037	1,839	(3,795)	(13,456)
Basic and diluted loss per share US$(1)	–	–	(0.03)	(0.09)
Basic earnings per share US$ (1)	0.01	0.01	–	–
Diluted earnings per share US$ (1)	0.01	0.01	–	–
2005				
Sales revenue	31	32	36	25
(Loss) for the quarter (1)	(5,054)	(628)	(3,976)	(866)
Basic and diluted loss per share US$ (1)	(0.07)	(0.01)	(0.05)	(0.01)

(1) As restated – See note 30 of the financial statements

The fourth quarter 2006 loss includes asset write offs of US$12.7 million in regard to the Asahan Offshore PSC. The second quarter 2006 profit includes a gain of US$2.3 million from the disposal of the 10% interest in the Lematang Block.

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 2006 US$000	31 December 2005 (1) US$000
Current assets:		
Inventories	6,785	878
Trade and other receivables	30,903	2,106
Cash and cash equivalents	77,306	109,750
Total Current assets	**114,994**	**112,734**
Less Current liabilities:		
Trade and other payables	(30,619)	(7,136)
Fair value of warrants	–	(6,850)
Net Current assets	**84,375**	**98,748**

(1) As restated – See note 30 of the financial statements

At 31 December 2006, the Company had net current assets of US$84.4 million which comprised current assets of US$115.0 million less current liabilities of US$30.6 million, giving an overall decrease in working capital of US$14.4 million in the year. The Company raised additional new funds of US$8.5 million through the exercise of warrants and earned interest income of US$4.9 million, but incurred significant costs in 2006 from exploration work, principally the Q4 UK drilling programme on the Oak and Columbus prospects.

Inventories increased significantly from US$0.9 million to US$6.8 million from the acquisition in Q3 2006 of steel casing for the forthcoming Indonesian drilling programme.

Trade and other receivables at 31 December 2006 included the US$5.0 million proceeds due from the Lematang PSC disposal, and significant recoverable amounts from partners in Joint Venture operations. Other smaller items included prepayments and sundry UK and Indonesia working capital balances.

Trade and other payables include significant amounts due to those sub-contractors operating the UK drilling program. They also include trade creditors and accruals from 3D seismic acquisition in Indonesia, a further US$1.5 million payable for acquisition of an additional 10% interest in the Glagah Kambuna TAC and US$1.9 million payable for Norwegian data costs.

The fair value of the Canadian $ warrants outstanding at 31 December 2005 is estimated using a Black Scholes pricing model based upon the warrant exercise price, the share price, volatility and the life of the warrant. This created a liability as at 31 December 2005, which was cleared in 2006 upon exercise. There is no cash effect of this liability. See note 30 of the financial statements for further detail.

Long-Term Assets and Liabilities

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

	31 December 2006 US$000	31 December 2005 US$000
Exploration and evaluation assets	40,681	23,591
Property, plant and equipment	342	26
Goodwill	1,200	2,382
Long-term other receivables	351	1,758
Long-term other payables	–	(151)
Deferred income tax liabilities	(955)	(2,137)

During 2006, total investments in petroleum and natural gas properties, represented by intangible exploration assets, increased to US$40.7 million. The net US$17.1 million increase consists of US$29.7 million of additions, less US$2.1 million disposals from Lematang, US$10.3 million of Asahan write offs and US$0.2 million of relinquished licence costs. Of the 2006 investments, US$17.6 million was spent in the UK principally on drilling activity on the Columbus and Oak prospects, US$7.1 million in Indonesia on exploration work and 3D Seismic, US$4.5 million on the further 10% interest in the Glagah Kambuna TAC, and a further US$0.5 million in Spain.

Property, plant and equipment includes 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$0.5 million to US$1.9 million following the Lematang disposal in Q2 2006, and by US$0.7 million to US$1.2 million following the write off of costs allocated to the Asahan asset.

Long-term other receivables of US$0.3 million represent value added tax (VAT) on Indonesian capital spend, which is expected to be recovered once the fields commence production.

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

Deferred income tax liabilities fell by US$1.2 million to US$1.0 million as the US$0.5 million liability associated with the Lematang PSC was removed, and a further US$0.7 million in relation to Asahan released following the write off of certain Asahan costs.

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

	31 December 2006 US$000	31 December 2005 (1) US$000
Total share capital	157,283	148,745
Other reserves	11,767	4,153
Accumulated deficit	(43,056)	(28,681)

(1) As restated – See note 30 of the financial statements

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

Issued share capital during 2006 was increased by the exercise of 7,949,376 warrants at a price of Cdn$1.20 and 40,000 share options of the Company at a price of Cdn$1.00.

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 2006, Serica had US$84.4 million of net working capital and no significant long-term debt. At that date the Company had commitments to future minimum payments under operating leases in respect of rental office premises, office equipment and motor vehicles for each of the following years as follows:

	US$000
31 December 2007	344
31 December 2008	287
31 December 2009	266
31 December 2010	42

The Company had no long-term debt or capital lease obligations. In Q4 2006 the Company contracted the Seadrill 5 jack-up drilling rig for 136 days during 2007 for Indonesia operations at a gross cost of US$26,286,000. Serica's net share of these costs will depend on the exact split of the proposed drilling programmes, but following the farm-out of a 45% interest in Biliton and current paying interests in the Glagah Kambuna TAC, this is expected to be approximately US$11,100,000.

In the absence of revenues generated from oil and gas production, Serica will utilise existing financial resources as required to fund its investment programme and ongoing operations.

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 2006 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 impairment tests whilst the costs of proved properties are depleted over the life of such producing fields. In each case, calculations are based upon management assumptions about future outcomes, product prices and performance.

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

Cash and cash equivalents, which comprise short-term cash deposits, are generally held within the currency of likely future expenditures to minimise the impact of currency fluctuations. The majority of funds are currently held in US dollars to match the Group's exploration and appraisal commitments. The holding of £4.4 million at year-end reflected a proportion of UK licence commitments and administrative expenditures expected in £ sterling.

Serica is holding significant net cash. Whilst this does leave exposure to interest rate fluctuations, given the level of expenditure plans over 2007/8 this is managed in the short-term through selecting treasury deposit periods of one to six months.

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.

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

SHARE OPTIONS

As at 31 December 2006, the following director and employee share options were outstanding:

	Expiry Date	Number	Exercise cost Cdn$
Share options	Aug 2007	400,000	444,000
	Jun 2008	400,000	720,000
	Aug 2009	100,000	111,000
	Feb 2009	817,500	1,635,000
	May 2009	100,000	200,000
	Dec 2009	325,000	325,000
	Jan 2010	600,000	600,000
	Jun 2010	1,233,333	2,219,999
			Exercise cost £
	Nov 2010	671,000	650,870
	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

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 2006. Management has concluded that, as of 31 December 2006, 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 relatively minor operating revenues and, during the period ended 31 December 2006 the Company incurred losses of US$14.4 million from continuing operations. At 31 December 2006 the Company held cash and cash equivalents of US$77.3 million.

OUTSTANDING SHARE CAPITAL

As at 20 March 2007, the Company had 150,937,955 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
29 March 2007

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 2006.

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.

On 1 September 2005, Serica completed a reorganisation whereby the common shares of Serica Energy Corporation were automatically exchanged on a one-for-one basis for ordinary shares of the Company (the 'Reorganisation'). 2005 comparatives in the financial statements of the Group represent a continuation of Serica Energy Corporation (see Note 1). The Company was incorporated on 12 May 2005, and did not commence its activities until after the Reorganisation on 1 September 2005.

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$14,375,000 (2005: US$10,524,000).

The Directors do not recommend the payment of a dividend (2005: 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 15 March 2007 Serica signed an agreement with Nations Petroleum, to farm-out a 45% interest in the Biliton PSC, Indonesia, subject to required regulatory approval. In return Nations Petroleum will bear the majority of the costs of the two well drilling programme scheduled to commence in Q2 2007. Serica retains a 45% interest in the Biliton PSC.

Other events since the balance sheet date are included in note 29.

Directors and their Interests
The following Directors have held office in either the Company or Serica Energy Corporation since 1 January 2006:

Antony Craven Walker
Paul Ellis
Christopher Atkinson – Resigned 31 December 2006
Christopher Hearne
Neil Pike
James Steel

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	4,565,626	3,043,750
Paul Ellis	Ordinary	250,000	250,000
Christopher Hearne	Ordinary	600,551	600,551
Neil Pike (2)	Ordinary	290,000	200,000
James Steel (3)	Ordinary	45,950	45,950

1. 3,017,623 ordinary shares are held by Antony Craven Walker and 1,548,003 ordinary shares are held by Christine Elizabeth Walker.

2. 200,000 ordinary shares are held by Neil Pike and 90,000 ordinary shares by Luska Limited.

3. 45,000 ordinary shares are held by Steelbridge Holdings Limited (a family corporation).

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 option plan (a summary of which is set out in note 25) as follows:

	1/1/06	Granted	Exercised	31/12/06	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
J Steel	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, James Steel 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.

Directors and their interests continued

The following Directors are also interested in share options held by them pursuant to the terms of the Serica Energy plc option plan (a summary of which is set out in note 25) as follows:

	1/1/06	Granted	Exercised	31/12/06	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

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 held pursuant to the terms of the Serica Energy plc 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 23 November 2006 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 23 November 2007 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 23 November 2008 has reached at least 175p or prior to 2 November 2009 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 20 March 2007:

	No of shares	Percentage holding
ZZZ Canada Control account c/o Capita Registrars	34,337,972	22.8
Fidelity International Ltd	19,049,776	12.6
Caledonia Investments	12,713,642	8.4
AXA Framlington	10,781,349	7.1
Cede & Co	8,509,497	5.7
Artemis Investment Management	5,622,500	3.7
Mr A Craven Walker	4,765,626	3.2
Mr C D Atkinson	4,739,315	3.1

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 2006, the Company had an average of 23 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 on page 36. 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
29 March 2007

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 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 21 April 2006, 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 three 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, 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 TSXV. 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 Jim Steel and its other members are Neil Pike and Tony Craven Walker.

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 Tony Craven Walker and Jim Steel.

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 Tony Craven Walker and its other members are Neil Pike and Jim Steel.

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 two independent directors. The Health, Safety and Environmental Committee is chaired by Paul Ellis and its other member are Tony Craven Walker and Jim Steel. Chris Atkinson served on the committee until his resignation from the Board on 31 December 2006.

DIRECTORS' BIOGRAPHIES

Antony Craven Walker
Non-Executive Chairman

Tony Craven Walker, age 64, 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 60, has 37 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 41, 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 61, has been involved in the global petroleum business as a financier since joining the energy department at Citibank in 1975. 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.

James Steel
Non-Executive Director

Jim Steel, age 73, joined Serica as a non-executive Director in June 2004. He has been involved in the oil and gas industry since 1961 when he was appointed Legal Advisor to BP Canada. He held a number of positions with BP and BP Canada through to 1968. Following this, he practiced as a corporate, commercial and oil and gas lawyer in Calgary, Alberta.


VERITAS VIKING

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, and 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 2006 which comprise the Group Income Statement, Group and Company Statements of Changes in Equity, Group and Company Balance Sheets, Group and Company Cash Flow Statements and the related notes 1 to 30. 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, Corporate Governance Statement and Director's Biographies. 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 2006 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 2006;

- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; 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 and Company, 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 and Company's affairs as at 31 December 2006 and of the Group's loss and the Company's profit for the year then ended.

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

29 March 2007

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

Notes		2006 US$000	2005 (1) US$000
3	**Sales revenue**	**61**	**124**
	Cost of sales	–	–
	Gross profit	**61**	**124**
5	Administrative expenses	(6,641)	(4,877)
	Foreign exchange gain/(loss)	1,715	(463)
	Pre-licence costs	(4,205)	(695)
12,14	Asset write offs	(12,870)	–
	Share-based payments	(1,918)	(1,013)
30	Change in fair value of share warrants	1,154	(6,405)
6	Depreciation, depletion and amortisation	(95)	(30)
	Operating loss before finance revenue and tax	**(22,799)**	**(13,359)**
16	Profit on disposal	2,311	–
9	Finance revenue	4,931	526
	Loss before taxation	**(15,557)**	**(12,833)**
10 a)	Taxation credit for the year	1,182	2,309
	Loss for the year	**(14,375)**	**(10,524)**
	Loss per ordinary share (US$)		
11	Basic and diluted LPS	(0.10)	(0.13)

(1) As restated – See note 30

BALANCE SHEET
AS AT 31 DECEMBER 2006

Notes		Group 2006 US$000	2005(1) US$000	Company 2006 US$000	2005(1) US$000
	Non-current assets				
12	Exploration & evaluation assets	40,681	23,591	–	–
13	Property, plant and equipment	342	26	–	–
14	Goodwill	1,200	2,382	–	–
15	Investments in subsidiaries	–	–	119,682	119,649
17	Other receivables	351	1,758	–	–
		42,574	27,757	119,682	119,649
	Current assets				
18	Inventories	6,785	878	–	–
19	Trade and other receivables	30,903	2,106	76,120	7,491
20	Cash and cash equivalents	77,306	109,750	49,098	107,080
		114,994	112,734	125,218	114,571
	Total assets	**157,568**	**140,491**	**244,900**	**234,220**
	Current liabilities				
21	Trade and other payables	(30,619)	(7,136)	(1,045)	(2,003)
30	Fair value of warrants	–	(6,850)	–	(6,850)
	Non-current liabilities				
	Other payables	–	(151)	–	–
10	Deferred income tax liabilities	(955)	(2,137)	–	–
	Total liabilities	**(31,574)**	**(16,274)**	**(1,045)**	**(8,853)**
	NET ASSETS	**125,994**	**124,217**	**243,855**	**225,367**
23	Share capital	157,283	148,745	122,011	113,473
15	Merger reserve	-	–	112,174	112,174
	Other reserves	11,767	4,153	11,767	4,153
	Accumulated deficit	(43,056)	(28,681)	(2,097)	(4,433)
	TOTAL EQUITY	**125,994**	**124,217**	**243,855**	**225,367**

(1) As restated – See note 30

Approved by the Board on 29 March 2007

Paul Ellis - Chief Executive Officer

Chris Hearne - Finance Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

Group	Share capital US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2005 previously reported	33,047	256	(14,828)	18,475
Impact of fair valued warrants (1)	–	–	(3,329)	(3,329)
At 1 January 2005 as restated (1)	33,047	256	(18,157)	15,146
Issue of shares	105,418	–	–	105,418
Conversion of warrants	10,190	–	–	10,190
Issue of 'A' share	90	–	–	90
Share-based payments	–	1,013	–	1,013
Loss for the year	–	–	(10,524)	(10,524)
Fair value of warrants converted (1)	–	2,884	–	2,884
At 1 January 2006 (1)	**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**

Company	Share capital US$000	Merger reserve US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At incorporation - 12 May 2005	–	–	–	–	–
Share reorganisation (1)	7,475	112,174	3,624	(3,624)	119,649
Issue of 'A' share	90	–	–	–	90
Issue of shares (net)	105,418	–	–	–	105,418
Conversion of warrants	490	–	–	–	490
Share-based payments	–	–	383	–	383
Loss for the period	–	–	–	(809)	(809)
Fair value of warrants converted	–	–	146	–	146
At 1 January 2006 (1)	**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**

(1) As restated – See note 30

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Group 2006 US$000	2005 (1) US$000	Company 2006 US$000	2005 (1) US$000
Cash flows from operating activities:				
Operating loss	(22,799)	(13,359)	(1,376)	(1,041)
Adjustments for:				
Depreciation, depletion and amortisation	95	30	–	–
Asset write offs	12,870	–	–	–
Share-based payments	1,918	1,013	1,918	383
Change in fair value of share warrants (1)	(1,154)	6,405	(1,154)	462
Foreign exchange loss on investment	–	417	–	–
Changes in working capital	(10,813)	2,184	(122)	326
Cash generated from operations	(19,883)	(3,310)	(734)	130
Taxes received	35	179	–	–
Net cash (out)/inflow from operations	**(19,848)**	**(3,131)**	**(734)**	**130**
Cash flows from investing activities:				
Interest received	4,999	292	3,872	–
Purchase of property, plant and equipment	(411)	(50)	–	–
Purchase of intangible exploration assets	(24,190)	(14,048)	–	–
Funding provided to group subsidiaries	–	–	(68,126)	–
Disposals of intangible exploration assets	–	1,046	–	–
Proceeds from disposal of investment	–	6,772	–	–
Net cash used in investing activities	**(19,602)**	**(5,988)**	**(64,254)**	**–**
Cash proceeds from financing activities:				
Net proceeds from issue of shares	(1,559)	106,950	(1,559)	106,950
Proceeds on exercise of warrants/options	8,565	10,190	8,565	–
Net cash from financing activities	**7,006**	**117,140**	**7,006**	**106,950**
Net (decrease)/increase in cash and cash equivalents	**(32,444)**	**108,021**	**(57,982)**	**107,080**
Cash and cash equivalents at 1 January	109,750	1,729	107,080	–
Cash and cash equivalents at 31 December	77,306	109,750	49,098	107,080

(1) As restated – See note 30

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 2006 were authorised for issue by the Board of Directors on 29 March 2007 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 TSXV.

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 2006. 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 2006 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 surplus dealt with in the financial statements of the parent Company was 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.

As detailed in Note 30, the Group and the Company have made certain restatements to the comparative year's balances. All prior year comparatives in affected notes to the Group and Company accounts have been restated to reflect these restatements.

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 2006.

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 25).

The Group determines whether E&E assets are impaired in cash-generating units defined on a geographical segment basis when facts and circumstances suggest that the carrying amount of a cash-generating unit 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., Firstearl 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. and Serica Nam Con Son B.V.. 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.

2. ACCOUNTING POLICIES CONTINUED

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units (business segments) expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit 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.

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 the Review of Operations on page 4.

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 based upon three geographical segments; Indonesia, UK & North West Europe and Spain.

E&E assets are not amortised prior to the conclusion of appraisal activities but are assessed for impairment in cash-generating units defined on a geographical segment basis when facts and circumstances suggest that the carrying amount of a cash-generating unit 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 relinquished licences are expensed in the income statement.

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 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 2005 or 2006.

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

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.

2. ACCOUNTING POLICIES CONTINUED

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, 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 comprise investments and are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. 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 include balances with banks and short-term investments with original maturities of three months or less at the date acquired.

Financial liabilities include outstanding share warrants which are carried at fair value. Changes in fair value are recognised in the income statement for the period.

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.

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.

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.

2. ACCOUNTING POLICIES CONTINUED

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 7 'Financial Instruments: Disclosures' – Effective date 1 January 2007
IFRS 8 'Operating Segments' – Effective date 1 January 2009
IAS 1 'Amendment – Presentation of Financial Statements: Capital Disclosures' – Effective date 1 January 2007

International Financial Reporting Interpretations Committee (IFRIC)
IFRIC 7 'Applying the restatement Approach under IAS 29 Financial reporting in Hyperinflationary Economies' – Effective 1 March 2006
IFRIC 8 'Scope of IFRS 2' – Effective date 1 May 2006
IFRIC 9 'Reassessment of Embedded Derivatives' – Effective date 1 June 2006
IFRIC 10 'Interim Financial Reporting and Impairment' – Effective date 1 November 2006
IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' – Effective 1 March 2007
IFRIC 12 ' Service Concession Arrangements' – 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.

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

3. REVENUE

Revenue disclosed in the income statement is analysed as follows.

	2006 US$000	2005 US$000
Gas and gas condensate sales	61	124

Direct operating costs for the Harimau field during these periods 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 2006 and 2005. Costs of the Singapore office are included in the Indonesian geographical segment.

Year ended 31 December 2006	**Indonesia 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
Operating loss	**(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

4. SEGMENTAL INFORMATION CONTINUED

Year ended 31 December 2005

	Indonesia US$000	UK & NW Europe US$000	Spain US$000	Total US$000
Revenue	**124**	**–**	**–**	**124**
Other expenses	(1,023)	(5,281)	(49)	(6,353)
Pre-licence costs	–	(695)	–	(695)
Asset write offs	–	–	–	–
Depreciation	(5)	(25)	–	(30)
Change in fair value of warrants	–	–	–	(6,405)
Operating loss	**(904)**	**(6,001)**	**(49)**	**(13,359)**
Other segment information:				
Exploration and evaluation assets	20,656	2,244	691	23,591
Plant, property and equipment	–	26	–	26
Goodwill	1,998	293	91	2,382
Other assets	4,654	1,502	10	6,166
Unallocated assets	–	–	–	108,326
Total assets	**27,308**	**4,065**	**792**	**140,491**
Segment liabilities	(4,720)	(2,567)	–	(7,287)
Unallocated liabilities (1)	–	–	–	(8,987)
Total liabilities (1)	**(4,720)**	**(2,567)**	**–**	**(16,274)**
Capital expenditure 2005:				
Exploration and evaluation assets	13,488	424	136	14,048
Property, plant and equipment	36	14	–	50

(1) As restated – See note 30

5. ANALYSIS OF EXPENSES BY FUNCTION

	2006 US$000	2005 US$000
Administrative	6,641	4,877
Other	16,219	8,606
	22,860	13,483

6. GROUP OPERATING LOSS

	2006 US$000	2005 US$000
This is stated after charging:		
Depreciation of property, plant and equipment	95	30
Total depreciation and amortisation expense	**95**	**30**
Operating lease rentals:		
Land and buildings	235	72
Other	50	45
Total lease payments recognised as an expense	**285**	**117**

7. AUDITOR'S REMUNERATION

	2006 US$000	2005 US$000
Audit of the financial statements (i)	260	189
	260	189

	US$000	US$000
Other fees to auditor:		
Corporate finance services (ii)	27	826
Other services (iii)	28	-
	55	826

(i) US$233,000 (2005 – $112,000) of this relates to the Company.

(ii) US$826,000 of corporate finance service fees were incurred in the December 2005 AIM listing, and as a cost of issue of shares, have been netted against share premium. These fees were paid in 2006 together with an incremental cost of US$27,000 incurred in 2006 which was also netted against share premium.

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

8. STAFF COSTS AND DIRECTORS' EMOLUMENTS

a) Staff Costs

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

	2006	2005
Management	3	3
Technical	7	5
Finance and administration	13	7
	23	**15**

	US$000	US$000
Staff costs for the above persons:		
Wages and salaries	1,955	948
Social security costs	203	114
Other pension costs	45	25
Share-based long term incentives (including related NI cost)	2,047	1,219
	4,250	**2,306**

b) Directors' Emoluments

The emoluments of the individual Directors were as follows:

	Salary and fees 2006 US$000	Bonus 2006 US$000	Benefits in kind 2006 US$000	Total 2006 US$000	Total 2005 US$000
A Craven Walker	132	–	–	132	87
P Ellis (Appointed 1 September 2005)	329	110	16	455	108
C Atkinson (Resigned 31 December 2006)	310	–	–	310	310
C Hearne (Appointed 15 June 2005)	289	41	8	338	148
J Steel	66	–	–	66	39
N Pike	75	–	–	75	55
A Bseisu (Resigned 1 September 2005)	–	–	–	–	18
C Rivett-Carnac (Resigned 15 June 2005)	–	–	–	–	195
	1,201	**151**	**24**	**1,376**	**960**

	2006	2005
Number of Directors securing benefits under defined contribution schemes	–	–
Number of Directors who exercised share options	–	–

9. FINANCE REVENUE

	2006 US$000	2005 US$000
Bank interest receivable	4,931	404
Income from investments	-	122
Total finance revenue	**4,931**	**526**

10. TAXATION

a) Tax on loss on ordinary activities

	2006 US$000	2005 US$000
Tax charged in the income statement		
UK corporation tax	–	–
Foreign tax	–	–
Current income tax charge	**–**	**–**
Amounts overprovided in previous years	–	–
Total current income tax	**–**	**–**
Deferred tax		
Releases on disposals and write offs	(1,182)	–
Gain on ENI Loan Note	–	(2,064)
Tax losses carried forward	–	(245)
Total deferred tax (credit)/charge	**(1,182)**	**(2,309)**
Tax (credit)/charge in the income statement	**(1,182)**	**(2,309)**

10. TAXATION CONTINUED

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:

	2006 US$000	2005 (1) US$000
Loss from operations before taxation and accounting loss before income tax	(15,557)	(12,833)
Expected tax recovery at 30% (2005 – 30%)	(4,667)	(3,850)
Expenses not deductible for tax purposes	617	870
Tax losses not utilised	1,070	–
Recognition of previously unrecognised deferred tax assets	(1,293)	–
Taxable gain on disposal of PSC interest	807	–
Release of deferred tax liability	(1,182)	–
Other	–	(967)
Gain on ENI loan note	–	(39)
Unrecognised tax losses	–	(245)
Asset write down not tax effected	3,811	–
Change in fair value of warrants	(345)	1,922
Tax (credit)/charge in the income statement	**(1,182)**	**(2,309)**

(1) As restated – See note 30

c) Unrecognised tax losses

The Group has non-capital tax losses of approximately US$17.1 million (2005: US$16.3 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:

	2006 US$000	2005 US$000
Deferred tax liability:		
Fair value adjustment	955	2,137
Deferred tax liability	**955**	**2,137**
Deferred tax asset:		
Tax losses carried forward	–	–
Deferred tax asset	**–**	**–**

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

	2006 US$000	2005 US$000
Deferred tax in the income statement:		
Release of liability on disposal	(505)	–
Release of liability on write off	(677)	–
Gain on ENI Loan Note	–	(2,064)
Tax losses carried forward	–	(245)
Deferred income tax (credit)	**(1,182)**	**(2,309)**

e) Company

There is no current or deferred taxation charge, or deferred tax asset/liability in the Company (2005 US$nil).

11. 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. The weighted average number of ordinary shares in 2005 has been calculated in accordance with the requirements of reverse acquisition accounting, for the period prior to the Reorganisation, by reference to the number of such shares Serica Energy plc issued to Serica Energy Corporation (see note 1).

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:

	2006 US$000	2005 (1) US$000
Net loss attributable to equity holders of the parent	(14,375)	(10,524)

	2006 US$000	2005 US$000
Basic and diluted weighted average number of shares	146,391	78,142

As a result of the net loss for the years ended 31 December 2005 and 2006, there is no dilutive effect of the share options and warrants.

(1) As restated – See note 30

12. EXPLORATION AND EVALUATION ASSETS

Group	**Total US$000**
Cost:	
1 January 2005	10,589
Additions	13,002
31 December 2005	23,591
Additions	29,652
Disposals	(2,051)
Write offs	(10,511)
31 December 2006	40,681
Depreciation:	
1 January 2005 and 1 January 2006	–
Charge for the year	–
31 December 2006	–
Net book value:	
31 December 2006	**40,681**
31 December 2005	**23,591**
1 January 2005	**10,589**

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 is 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). In the Asahan Offshore PSC, approval was not received from the Indonesian authorities for the development of the small Tanjung Perling gas field prior to the end of the Exploration Period of the PSC on 16 December 2006. Serica is in discussions with the Indonesian authorities to agree an appropriate way forward to enable operations to continue into the second phase of the PSC. In view of the uncertainty on the outcome of these discussions, costs associated with the PSC have been written off. These largely relate to the Togar 1A well drilled in 2005 which was announced at the time as a non-commercial gas discovery. All Asahan Offshore PSC write offs occur in the Indonesian geographical segment.

Company
The Company has no E&E assets.

13. PROPERTY, PLANT AND EQUIPMENT

Group	Computer/ IT Equipment US$000	Fixtures, Fittings & Equipment US$000	Total US$000
Cost			
1 January 2005	31	6	37
Additions	50	-	50
31 December 2005	81	6	87
Additions	69	342	411
31 December 2006	**150**	**348**	**498**
Depreciation			
1 January 2005	26	5	31
Charge for the year	29	1	30
31 December 2005	55	6	61
Charge for the year	33	62	95
31 December 2006	**88**	**68**	**156**
Net book value			
31 December 2006	**62**	**280**	**342**
31 December 2005	**26**	**–**	**26**
1 January 2005	**5**	**1**	**6**

Company

The Company has no property, plant and equipment.

14. GOODWILL

Group	Total US$000
At 1 January and at 31 December 2005	2,382
Disposals	(505)
Write offs (see note 12)	(677)
At 31 December 2006	**1,200**

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the cash-generating units, which are also geographical segments representing the location of the Group's assets, as follows:

UK (US$293,000), Indonesia (US$816,000) and Spain (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 (2005: 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.

15. INVESTMENTS

Company – Investment in subsidiaries

	US$000
Cost:	
At incorporation	–
Additions (on 1 September share reorganisation)	119,649
At 31 December 2005	119,649
Investment in Serica Energy Holdings B.V.	33
At 31 December 2006	**119,682**

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.

15. INVESTMENTS CONTINUED

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

Name of company:	Holding	Nature of business	% voting rights and shares held 2006	% voting rights and shares held 2005
Serica Energy Corporation (ii)	Ordinary	Admin	100	100
Serica Energy Holdings B.V. (iii)	Ordinary	Holding	100	–
Firstearl Ltd (i)	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	–
Serica Nam Con Son B.V. (i & iii)	Ordinary	Exploration	100	–

(i) Held by a subsidiary undertaking

(ii) Incorporated in the British Virgin Islands

(iii) Incorporated in the Netherlands

16. ASSET ACQUISITIONS AND DISPOSALS

Acquisitions

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

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

	Book Value US$000	Fair Value Adjustment US$000	Preliminary Fair Value US$000
Exploration and evaluation assets	–	4,500	4,500
Working capital	–	–	–
	–	**4,500**	**4,500**

The attributed book value of US$nil arises as PT Gunakarsa's cost share in the Glagah Kambuna TAC was carried. The above numbers are preliminary. Adjustments may occur as a result of obtaining more information regarding asset valuations, liabilities assumed and revisions of preliminary estimates of fair values made at the date of purchase.

Disposals/Farm outs

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.

17. OTHER RECEIVABLES

	Group 2006 US$000	2005 US$000	Company 2006 US$000	2005 US$000
Other debtors	351	1,758	–	–
	351	**1,758**	**–**	**–**

18. INVENTORIES

	Group 2006 US$000	2005 US$000	Company 2006 US$000	2005 US$000
Materials and spare parts	6,785	878	–	–
	6,785	**878**	**–**	**–**

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.

19. TRADE AND OTHER RECEIVABLES

	Group 2006 US$000	2005 US$000	Company 2006 US$000	2005 (1) US$000
Due within one year:				
Amounts owed by Group undertaking	–	–	75,984	7,156
Corporation tax recoverable	31	34	–	–
Other receivables	30,122	1,816	136	335
Prepayments and accrued income	750	256	–	–
	30,903	**2,106**	**76,120**	**7,491**

(1) As restated – See note 30

Other receivables included the US$5.0 million proceeds due from the Lematang PSC disposal, and significant recoverable amounts from partners in Joint Venture operations. Significant receivables have been settled since the year end and management considers that there are no unreasonable concentrations of credit risk within the Group.

20. CASH AND SHORT-TERM DEPOSITS

	Group 2006 US$000	2005 US$000	Company 2006 US$000	2005 US$000
Cash at bank and in hand	3,075	1,424	802	154
Short-term deposits	74,231	108,326	48,296	106,926
	77,306	**109,750**	**49,098**	**107,080**

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.

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

21. TRADE AND OTHER PAYABLES

	Group 2006 US$000	2005 US$000	Company 2006 US$000	2005 US$000
Current:				
Trade payables	20,371	4,010	135	734
Other payables	10,248	3,126	910	1,269
	30,619	**7,136**	**1,045**	**2,003**

22. 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 2006

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

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

Year ended 31 December 2005

	Within 1 year US$000	1-2 years US$000	Total US$000
Fixed rate			
Short-term deposits	108,326	–	108,326
			108,326
Floating rate financial assets			
Cash	1,424	–	1,424
			1,424
Floating rate financial liabilities			
Fair value of warrants	6,850	–	6,850
			6,850

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.

22. FINANCIAL INSTRUMENTS CONTINUED

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 2006

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

	Within 1 year US$000	1-2 years US$000	Total US$000
Floating rate			
Cash	802	–	802
Short-term deposits	–	–	–
			802

Year ended 31 December 2005

	Within 1 year US$000	1-2 years US$000	Total US$000
Fixed rate			
Short-term deposits	106,926	–	106,926
			106,926
Floating rate financial assets			
Cash	154	–	154
			154
Floating rate financial liabilities			
Fair value of warrants	6,850	–	6,850
			6,850

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.

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 2006 '000	2005 '000	Company 2006 '000	2005 '000
Cash and cash equivalents:				
Pounds sterling	4,444	11,056	2,092	10,877
Canadian dollars	508	221	38	–
Singapore dollars	37	59	–	–
Indonesian rupiah	381,226	226,374	–	–
Euros	32	8	–	–
Accounts receivable:				
Pounds sterling	5,904	271	–	–
Singapore dollars	52	31	–	–
Trade payables:				
Pounds sterling	5,972	469	16	427
Canadian dollars	15	133	20	–
Indonesian rupiah	1,940,471	439,025	10,180	–
Euros	67	6	17	–
Warrants:				
Canadian dollars	–	7,987	–	7,987

22. FINANCIAL INSTRUMENTS CONTINUED

Fair values of financial assets and liabilities

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

Group	Book value 2006 US$000	2005 US$000	Fair value 2006 US$000	2005 US$000
Financial assets/liabilities:				
Cash and deposits	77,306	109,750	77,306	109,750
Other receivables	2,280	1,758	2,151	1,565
Warrants	–	(6,850)	–	(6,850)
Other payables	–	(151)	–	(133)

Company	Book value 2006 US$000	2005 US$000	Fair value 2006 US$000	2005 US$000
Financial assets/liabilities:				
Cash and deposits	49,098	107,080	49,098	107,080
Warrants	–	(6,850)	–	(6,850)

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.

23. EQUITY SHARE CAPITAL

	2006 Number	2006 US$000	2005 Number	2005 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:

Group	Number	Share capital US$000	Share premium US$000	Total Share capital US$000
At 1 January 2005	62,685,758	33,047	–	33,047
Warrants and options exercised	12,060,025	9,700	–	9,700
Reallocation on share reorganisation	–	(35,272)	35,272	–
'A' share issued	1	90	–	90
Warrants and options exercised	434,375	43	447	490
Issued shares upon AIM admission (i)	67,368,421	6,737	98,681	105,418
At 1 January 2006	**142,548,580**	**14,345**	**134,400**	**148,745**
Incremental issue costs	–	–	(27)	(27)
Options exercised (ii)	40,000	4	31	35
Warrants exercised (iii)	7,949,376	795	7,735	8,530
As at 31 December 2006	**150,537,956**	**15,144**	**142,139**	**157,283**

Company	Number	Share capital US$000	Share premium US$000	Total Share capital US$000
On incorporation	2	–	–	–
Share reorganisation	(2)	–	–	–
Share reorganisation	74,745,783	7,475	–	7,475
'A' share issued	1	90	–	90
Warrants/options exercised	434,375	43	447	490
Issued shares upon AIM admission	67,368,421	6,737	98,681	105,418
As at 31 December 2005	**142,548,580**	**14,345**	**99,128**	**113,473**
Incremental issue costs	–	–	(27)	(27)
Options exercised (i)	40,000	4	31	35
Warrants exercised (ii)	7,949,376	795	7,735	8,530
As at 31 December 2006	**150,537,956**	**15,144**	**106,867**	**122,011**

(i) Issued share capital from the AIM listing in December 2005 of US$105,418,000 is net of issue costs of US$6,863,000.

(ii) From 1 January 2006 until 31 December 2006, 40,000 employee share options were converted to ordinary shares at prices of Cdn$1.00.

(iii) From 1 January 2006 until 31 December 2006, 7,949,376 share purchase warrants were converted to ordinary shares at prices of Cdn$1.20. Cash consideration received is credited to share capital and the related element of the fair value liability credited to other reserves.

24. ADDITIONAL CASH FLOW INFORMATION

Analysis of Group net cash

	1 January 2006 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2006 US$000
Cash	1,424	1,651	–	3,075
Short-term deposits	108,326	(34,095)	–	74,231
	109,750	**(32,444)**	**–**	**77,306**

Analysis of Company net cash

	1 January 2006 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2006 US$000
Cash	154	648	–	802
Short-term deposits	106,926	(58,630)	–	48,296
	107,080	**(57,982)**	**–**	**49,098**

25. SHARE-BASED PAYMENTS

Share Option Plans

The Company established an option plan in 2005 (the 'Serica 2005 Option Plan') 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 (see Note 1), is now a wholly owned subsidiary of the Company. Prior to the Reorganisation, Serica BVI issued options under its option plan (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 3,975,833 ordinary shares of the Company. No further options will be granted under the Serica BVI option plan.

The Company has granted 2,661,000 options under the Serica 2005 Option Plan, 2,516,000 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 per cent. of the issued ordinary shares of the Company from time to time in line with the recommendations of the Association of British Insurers.

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain market conditions) to estimate the fair value of share options at the date of grant. The estimated fair value of options is amortised to expense over the options' vesting period. US$1,918,000 has been charged to the income statement in the year ended 31 December 2006 and a similar amount credited to other reserves.

The assumptions made for the options granted during 2005 and 2006 include a volatility factor of expected market price of 50%, a weighted average risk-free interest rate of 6%, no dividend yield and a weighted average expected life of options of three years.

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

Serica BVI option plan

	2006 Number	2006 WAEP Cdn$	2005 Number	2005 WAEP Cdn$
Outstanding as at 1 January	4,212,500	1.57	3,087,500	1.65
Granted during the year	–	–	2,500,000	1.61
Cancelled during the year	(196,667)	1.93	(1,170,000)	1.84
Exercised	(40,000)	1.00	(205,000)	1.43
Outstanding as at 31 December	**3,975,833**	**1.57**	**4,212,500**	**1.57**

Serica 2005 option plan

		£		£
Outstanding as at 1 January	696,000	0.97	–	–
Granted during the year	1,965,000	1.02	696,000	0.97
Cancelled during the year	(145,000)	1.02	–	–
Outstanding as at 31 December	**2,516,000**	**1.01**	**696,000**	**0.97**

26. COMMITMENTS UNDER OPERATING LEASES

Operating lease agreements where the Group is lessee

At 31 December 2006 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 2006 US$000	2005 US$000	Company 2006 US$000	2005 US$000
Not later than one year	344	275	–	–
After one year but not more than five years	595	594	–	–
	939	**869**	**–**	**–**

27. CAPITAL COMMITMENTS AND CONTINGENCIES

In Q4 2006 the Company contracted the Seadrill 5 jack-up drilling rig for 136 days during 2007 for Indonesia operations at a gross cost of US$26,286,000. The operations currently identified for use of the rig are ventures where joint venture partners will be paying a share of the costs. Serica's net share of these costs will depend on the exact split of the proposed drilling programmes, but following the farm-out of the 45% interest in Biliton (see note 29 – Post Balance Sheet Events) and current paying interests in the Glagah Kambuna TAC, this is expected to be approximately US$11,100,000.

At 31 December 2006, other amounts contracted for but not provided in the financial statements for the acquisition of intangible exploration assets amounted to US$nil for the Group and US$nil for the Company. (2005 – 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 2007 US$21,720,000

These obligations reflect the Group's share of interests in the defined work programmes and are not formally contracted at 31 December 2006. 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$5.9 million of cash collateral (included within the cash and short term deposits as at 31 December 2006). 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.

28. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH DIRECTORS

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

29. POST BALANCE SHEET EVENTS

On 15 March 2007 Serica signed an agreement with Nations Petroleum, to farm-out a 45% interest in the Biliton PSC, Indonesia, subject to required regulatory approval. In return Nations Petroleum will bear the majority of the costs of the two well drilling programme scheduled to commence in Q2 2007. Serica retains a 45% interest in the Biliton PSC.

On 19 March 2007 Serica announced that it had secured the use of the SEDCO 704 semi-submersible drilling rig for appraisal wells on the Columbus prospect, in Central North Sea Block 23/16f. The rig has been contracted through AGR Peak Group and Serica will have the first two slots in the programme, with drilling due to commence in Q3 2007.

30. RETROSPECTIVE RESTATEMENT

The prior year income statement and balance sheet have been adjusted to reflect the accounting for share warrants that were outstanding at 31 December 2005 as a liability, carried at fair value. Previously the warrants were considered to qualify for treatment as equity under IAS 32 Financial Instruments: Presentation. However, precedents now available indicate that, because the conversion proceeds were denominated in Cdn$, and the company's functional currency is US$, these instruments should have been treated more appropriately as a liability for the period the warrants remained outstanding, with an income statement charge/credit made to reflect the movement in the fair value of the warrants in each relevant period. All warrants were exercised during 2006. The effect of this non cash adjustment on the Group Income statement, Loss per Ordinary Share, Group and Company Balance Sheets, and Group and Company Statements of Changes in Equity is set out below:

Effect on Group Income Statement

	Effect on 2005 US$000
Change in fair value of warrants	(6,405)
Increase in loss before tax	**(6,405)**

Effect on Loss per Ordinary Share

	Effect on 2005 US$
Loss per Ordinary Share previously reported	(0.05)
Effect on Loss per Ordinary Share	(0.08)
Loss per Ordinary Share as restated	**(0.13)**

Effect on Group Balance Sheet

	31 December 2005 US$000
Total liabilities as previously reported	(9,424)
Fair value of warrants	(6,850)
Total liabilities as restated	**(16,274)**

Effect on Company Balance Sheet

	31 December 2005 US$000
Current liabilities	
Total liabilities as previously reported	(2,003)
Fair value of warrants	(6,850)
Total liabilities as restated	**(8,853)**
Current assets	
Amounts owed by group undertakings as previously reported	622
Impact of fair value of warrants	6,534
Amounts owed by group undertakings as restated	**7,156**

Effect on Statement of Changes in Equity

	Other Reserves US$000	Accumulated Deficit US$000	Total US$000
Group			
As at 1 January 2005 previously reported	256	(14,828)	(14,572)
Fair value of warrants	–	(3,329)	(3,329)
As at 1 January 2005 as restated	**256**	**(18,157)**	**(17,901)**
As at 31 December 2005 previously reported	1,269	(18,947)	(17,678)
Fair value of warrants (b/f effect)	–	(3,329)	(3,329)
Fair value of warrants (2005 effect)	2,884	(6,405)	(3,521)
As at 31 December 2005 as restated	**4,153**	**(28,681)**	**(24,528)**
Company			
As at the Reorganisation previously reported	886	(886)	–
Fair value of warrants	2,738	(2,738)	–
As at the Reorganisation as restated	**3,624**	**(3,624)**	**–**
As at 31 December 2005 previously reported	1,269	(1,233)	36
Fair value of warrants	2,884	(3,200)	(316)
As at 31 December 2005 as restated	**4,153**	**(4,433)**	**(280)**

Effect on Summary of Quarterly Results in Managements Discussion and Analysis

(Loss)/profit for the quarter

Quarter ended:	**31 Mar US$000**	**30 Jun US$000**	**30 Sep US$000**	**31 Dec US$000**
2006				
(Loss)/profit for the quarter previously	(799)	2,521	N/A	N/A
Change in fair value of warrants	1,836	(682)	–	–
(Loss)/profit for the quarter restated	1,037	1,839	N/A	N/A
2005				
(Loss) for the quarter previously	(1,455)	(1,486)	(775)	(403)
Change in fair value of warrants	(3,599)	858	(3,201)	(463)
(Loss) for the quarter restated	(5,054)	(628)	(3,976)	(866)

(Loss)/earnings per share

Quarter ended:	**31 Mar US$**	**30 Jun US$**	**30 Sep US$**	**31 Dec US$**
2006				
Basic and diluted loss per share US$ previously reported	(0.01)	–	N/A	N/A
Basic earnings per share US$ previously reported	–	0.02	N/A	N/A
Diluted earnings per share US$ previously reported	–	0.02	N/A	N/A
Change in fair value of warrants	0.02	(0.01)	N/A	N/A
Basic earnings per share US$ as restated	0.01	0.01	N/A	N/A
Diluted earnings per share US$ as restated	0.01	0.01	N/A	N/A
2005				
Basic and diluted loss per share US$ previously reported	(0.02)	(0.02)	(0.01)	(0.01)
Change in fair value of warrants	(0.05)	0.01	(0.04)	–
Basic and diluted earnings per share US$ as restated	(0.07)	(0.01)	(0.05)	(0.01)

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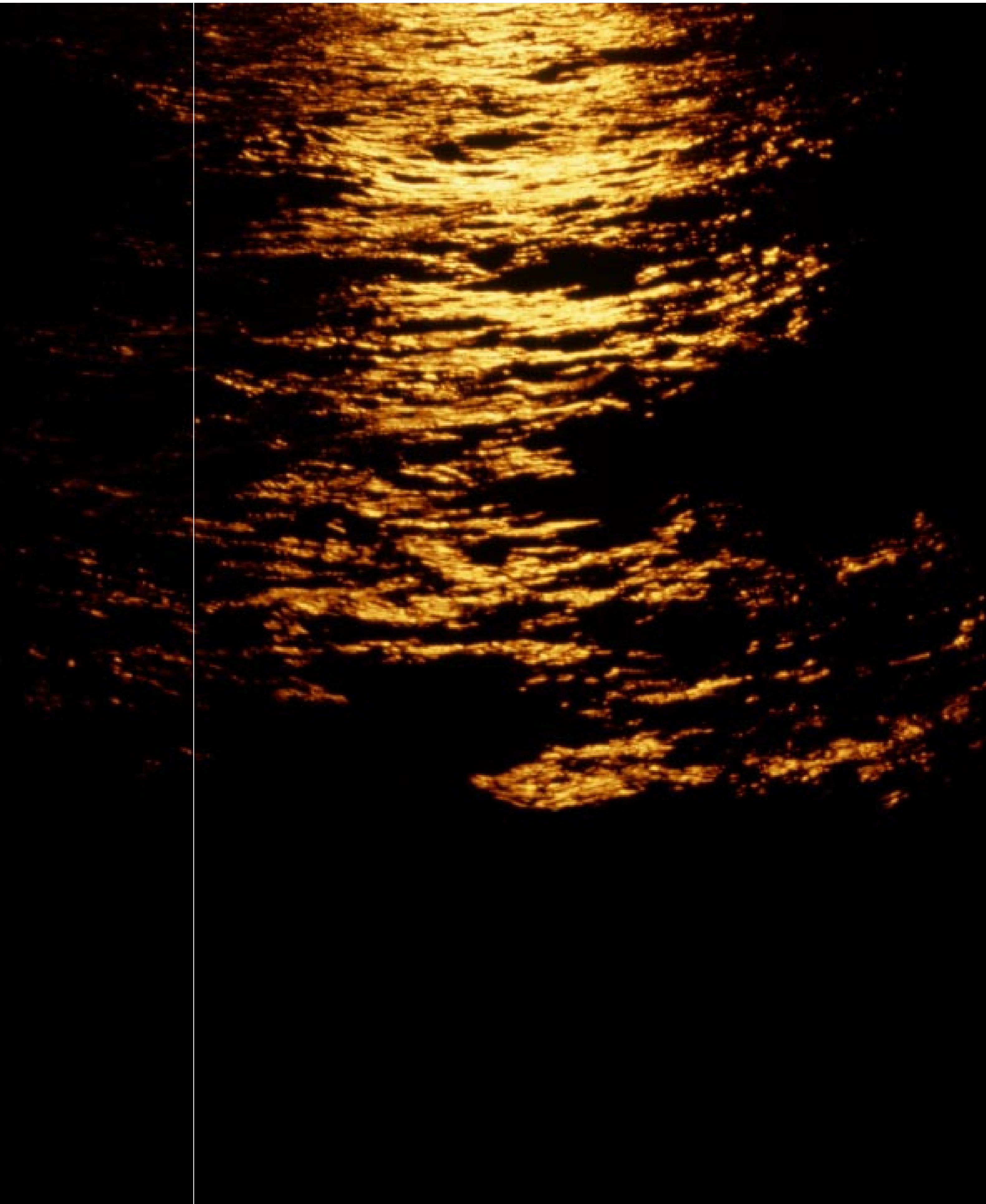

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