SERICA ENERGY CORPORATION:
Second Quarter 2004 Report to Shareholders

The second quarter 2004 was the first full quarter for Serica Energy which was created from the first quarter merger of PDA and Kyrgoil. During the quarter Serica shares traded in the range of C$0.65 to C$1.10.

Since completing the merger considerable attention has been devoted to strengthening the board with changes to reflect the redirection of the Company from a refiner in Kyrgyzstan, when Kyrgoil and PDA merged, to a post-merger upstream oil and gas company as the renamed Serica Energy.

On 30th June 2004, Serica entered into an agreement to acquire Firstearl Limited, a private British-registered company with sole assets of cash and marketable corporate securities of just over C$11.3 million. On the same day we signed an engagement letter with Canaccord Capital Corporation to raise up to C$11 million through a private placement to fund the transaction. This transaction was completed on 10 August 2004 in the third quarter and Firstearl founder and director, Tony Craven Walker, has now joined the Board as non-executive Chairman. Neil Pike, former head of Citibank's global energy financing division, has also joined the Board as a non-executive director. These two appointments considerably strengthen your Company's Board.

Serica has seen significant progress in its exploration plans during the quarter and has continued to strengthen its Indonesian position. During the quarter, we have increased our equity in two of our properties by purchasing Asahan Oil Investments BV and Glagah Kambuna Exploration BV, both Dutch registered entities for a consideration of US$1,505,543, satisfied by the issue of 1,004,950 shares of Serica Energy Corporation. At the time of the transaction Asahan Oil Investments BV held just over 38.82% in the Asahan Production Sharing Contract ("PSC") and, as a result of this transaction, Serica has increased its holding in the Asahan PSC to just over 69.41%.

Also in Indonesia, Serica continued its technical evaluation of all its acreage, including interpretation of newly acquired seismic data on the Biliton PSC. In the Lematang PSC preparations continued for the drilling of the Banteng exploration well which spudded on 25th June 2004. The results of this well are expected to be known at the end of the third quarter.

Work in the UK continued on remapping and conducting studies of the gas discovery on block 48/16b (P.898), in which Serica holds 100% working interest, and mapping continued on blocks 47/17 and 47/18 (P.1142), in which the Company also holds 100% working interests. Efforts are continuing to identify suitable partners for the commercial development of the discovery and for further exploration of the exploration blocks. Serica completed its evaluation of open acreage for application in the UK 22nd Licensing Round and filed a number of applications for new licences. The results of these applications are expected to be known in the third quarter.

In Spain Serica commenced preparation for field based gravity measurements, to be conducted over the western part of its permits during the third quarter, and commenced its 2004 fieldwork programme. During the second quarter a small investment in another TSX-V listed oil and gas company was sold.

With further wells in Indonesia planned for the year end and the Company's exploration programme continuing to identify significant new prospects on unexplored acreage, such as the Biliton PSC, Serica will be directing its attention to strengthening its financial and operating base in parallel with its drilling operations, including the possibility of mergers and acquisitions.

Serica Energy Corporation
Consolidated Balance Sheet

		30 June 2004 US$ (Unaudited)	31 December 2003 US$ (Audited) (Restated - note 5)
Assets			
Current			
Cash and cash equivalents		**1,851,758**	4,251,636
Accounts receivable		**809,052**	1,040,273
Investments	*Note 4*	**15,479**	284,829
		2,676,289	5,576,738
Property, plant and equipment	*Note 5*	**10,456,059**	8,232,669
Long term accounts receivable		**258,571**	151,488
Goodwill	*Note 5*	**2,600,976**	2,341,309
		15,991,895	16,302,204
Liabilities			
Current			
Accounts payable and accruals		**879,441**	1,694,939
		879,441	1,694,939
Long term accounts payable		**151,488**	151,488
Asset retirement obligation		**121,560**	121,560
Future income taxes	*Note 5*	**2,291,876**	2,032,209
		3,444,365	4,000,196
Shareholders' Equity			
Share capital	*Note 6*	**22,178,236**	13,000,002
Special warrants	*Note 7*	**-**	5,327,363
Contributed surplus	*Note 8*	**186,467**	98,555
Deficit		**(9,817,173)**	(6,123,912)
		12,547,530	12,302,008
		15,991,895	16,302,204

Approved on behalf of the Board

(signed) "Christopher Rivett-Carnac" (signed) "Amjad Bseisu"

Christopher Rivett- Carnac
Director

Amjad Bseisu
Director

See accompanying notes to the consolidated financial statements

Serica Energy Corporation
Consolidated Statement of Operations

	Three months ended 30 June 2004 US$ (Unaudited)	Six months ended 30 June 2004 US$ (Unaudited)
Revenue	**43,582**	82,033
Expenses		
Operating	**-**	1,967
Administrative	**1,586,876**	2,444,165
Stock compensation	**30,852**	87,912
Depreciation, depletion and amortization	**3,463**	11,728
Interest, net	**(13,981)**	(14,785)
Foreign exchange loss	**34,274**	95,236
Gain on disposal of investment	**(28,019)**	(141,273)
	1,613,465	2,484,950
Net loss for the period	**(1,569,883)**	(2,402,917)
Retained deficit, beginning of period	**(8,229,387)**	(6,123,912)
Cost of merger	**(17,903)**	(1,290,344)
Deficit, end of period	**(9,817,173)**	(9,817,173)
Net loss per common share		
Basic	(0.04)	(0.06)
Diluted	(0.04)	(0.06)

See accompanying notes to the consolidated financial statements

Serica Energy Corporation
Consolidated Statement of Cash Flows

	Three months ended 30 June 2004 US$ (Unaudited)	Six months ended 30 June 2004 US$ (Unaudited)
Operating activities		
Net loss for the period	**(1,569,883)**	(2,402,917)
Depreciation, depletion and amortization	**3,463**	11,728
Gain on disposal	**(28,019)**	(141,273)
Stock options compensation charge	**30,852**	87,912
	(1,563,587)	(2,444,550)
Changes in working capital		
Accounts receivable	**46,982**	1,942,262
Accounts payable	**292,557**	(1,295,161)
Cash used in operating activities	**(1,224,048)**	(1,797,449)
Investing activities		
Purchases of property, plant and equipment	**(1,099,963)**	(1,533,314)
Proceeds on disposal of investment	**151,449**	410,623
Cost of merger	**(17,903)**	(1,290,344)
Cash acquired on merger	**-**	1,654,212
Cash acquired on acquisition	**56,781**	56,781
Cash provided by investing activities	**(909,636)**	(702,042)
Financing activities		
Proceeds on exercise of options	**-**	99,613
Cash provided by financing activities	**-**	99,613
Decrease in cash and cash equivalents	**(2,133,684)**	(2,399,878)
Cash and cash equivalents, beginning of period	**3,985,442**	4,251,636
Cash and cash equivalents, end of period	**1,851,758**	1,851,758

See accompanying notes to the consolidated financial statements

Serica Energy Corporation
Notes to the Consolidated Financial Statements
30 June 2004
(Unaudited)

1. Basis of presentation

The interim consolidated financial statements include the accounts of the Serica Energy Corporation ("the Company) and its wholly owned subsidiaries Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited, Petroleum Development Associates Iberica S.L., Serica Energy (UK) Limited, Serica Energy Pte Limited, Asahan Oil Investments BV and Glagah Kambuna Exploration BV.

The Company was formed on 29 January 2004 by a merger of Petroleum Development Associates (Oil & Gas) Limited ("PDA") and Kyrgoil Holding Corporation ("KGO") and was continued under the name of Serica Energy Corporation. The principal activity of the Company is to identify, acquire and subsequently exploit oil and gas reserves primarily in Asia and Europe and the provision of ancillary services to third parties in such respect.

The merger of PDA and KGO has been accounted for under EIC 10 as a reverse takeover which does not constitute a business transaction.

As such, the financial statements of the Company represent a continuation of PDA. No comparative period has been presented for Consolidated Statement of Operations and Consolidated Statement of Cash Flows as PDA was only incorporated on June 11, 2003 and did not commence activities until after 30 June 2003.

On 1 January 2004 PDA acquired all of the issued shares of Serica Energy Pte Limited (formerly Asia Petro Services Pte Limited) for a cash consideration equal to that company's net assets. This company was owned and operated by the management team of PDA but had not been included within the business reorganization effected on 27 August 2003. As there had been common control throughout, the 31 December 2003 balance sheet comparatives have been restated to incorporate the assets and liabilities of this company at 31 December 2003.

2. Significant accounting policies

The interim financial statements of the Company have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended 31 December 2003, except as described in note 1 and note 5. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Petroleum Development Associates (Oil&Gas) Limited annual report for the year ended 31 December 2003.

Investments

Investments are portfolio investments recorded at the lower of cost or market value. They have been classified as temporary investments in concurrence with the nature of the investment.

Property, plant and equipment

The Company follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs associated with the exploration for, and the development of, petroleum and natural gas reserves, whether productive or unproductive are capitalised in cost centers on a country by country basis. Costs capitalised include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties and drilling and overhead expenses related to exploration and development activities. The Company has currently three costs centers: Indonesia, Spain and the UK.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion, future or deferred income taxes and the site restoration provision from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves, based on current prices and costs, and after deducting estimated future site restoration costs, general and administrative expenses, financing costs and income taxes. Any costs carried on the balance sheet in excess of the ceiling test limit are charged to income as additional depletion. The carrying value of unproved properties (acquisition costs and seismic data) are reviewed periodically and written down to net realizable value if impairment is determined. Any impairment is included in costs subject to depletion.

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Depreciation, depletion and amortization

The costs related to each cost centre are depleted and depreciated on a unit-of-production basis. Costs of unproved properties are excluded from depletion. Land and lease costs relating to producing properties and costs of gas plants are depleted and depreciated over remaining proved reserves.

Computer equipment and fixtures, fittings and equipment are recorded at cost. The straight-line method of amortization is used to amortize the cost of these assets over their estimated useful lives. Computer equipment is amortized over three years and fixtures, fittings and equipment over four years.

Goodwill

Goodwill, which represents the excess of purchase price over the fair market value of net tangible assets acquired, is not amortized but is subject to an annual impairment test. Goodwill impairment is assessed based on a comparison of the fair value of an individual reporting unit to the underlying carrying value of the reporting unit’s net assets including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the fair value of the reporting unit’s goodwill is compared with its carrying amount to measure the amount of impairment loss, if any. The fair value of goodwill is determined in the same manner as in a business combination.

Joint venture activities

The Company conducts petroleum and natural gas exploration and production activities jointly with others. These financial statements reflect only the Company’s proportionate interest in such activities.

Asset retirement obligations

An asset retirement obligation is recognized at its fair value when identified and a reasonable estimate of its fair value is determinable. Prices for similar liabilities are used to measure fair value.

When a liability is recognized, a corresponding asset retirement cost is capitalized to the carrying amount of the related asset. The asset retirement cost is amortized over the estimated useful life of the related asset.

The Company recognizes changes to the liability arising from revisions to the timing or amount of expected future cash flows as an increase or decrease to the carrying amounts of the asset retirement obligation and the related asset retirement capitalized cost.

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided to the extent that it is more likely than not that future income taxes will not be realized.

Revenue recognition

Petroleum and natural gas revenues are recognized when the title and risks pass to the purchaser.

Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated based on the treasury stock method which assumes that any proceeds obtained on the exercise of any options and warrants would be used to purchase common shares at the average price during the period.

Stock based compensation

The Company uses the fair value method of accounting for stock-based compensation, or stock options, granted to employees and directors. Stock-based compensation is recorded in the consolidated statements of operations as a separate expense for all options granted with a corresponding increase in equity recorded as contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

The Company has not incorporated an estimate forfeiture rate for stock options that will not vest, rather, the Company accounts for forfeitures as they occur. In the event that vested options expire without being exercised, previously recognized compensation expense associated with stock options is not reversed.

Compensation expense for options granted during 2004 is based on the estimated fair values at the time of the grant and the expense is recognized over the vesting period of the option.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization of capital assets other than petroleum and natural gas properties is based on the estimated useful lives of the capital assets. The amounts recorded for depletion and depreciation of property and equipment and the provision for site restoration and abandonment are based on estimates of proved reserves, proved developed reserves, production rates, future costs and other relevant assumptions. These estimates are reviewed regularly and changes in such estimates in future years could be significant. As adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. Business combination

The Company entered into an agreement on 22 April 2004 to purchase Asahan Oil Investments BV and Glagah Kambuna Exploration BV, both of which are registered in the Netherlands for a consideration of US$701,804. The consideration was satisfied by the issue of 1,004,950 shares of Serica Energy Corporation.

The value of the common shares issued was determined based on the market price of the Company's common shares on 22 April 2004. The acquisition has been accounted for by the purchase method in these consolidated financial statements from the date of acquisition.

The net effect of the acquisition on the Company's consolidated balance sheet was as follows:

The assets at acquisition were:

Asahan Oil Investments BV	**Fair value**
Property, plant and equipment	**663,397**
Cash and cash equivalents	**28,393**
Accounts payable	**(28,393)**
	663,397

Glagah Kambuna Exploration BV	**Fair value**
Property, plant and equipment	**38,407**
Cash and cash equivalents	**28,388**
Accounts payable	**(28,388)**
	38,407

The above allocations 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.

4. Investments

Included in investments is an interest in convertible debentures of a company listed on the Canadian Venture Exchange.

	Percent Ownership 2004	**2004**	2003
Investment represents:			
Common shares	-	**-**	268,714
Convertible debentures	1.7%	**15,479**	16,115
		15,479	284,829

The investment represents a company that carries on oil and gas company exploration, development and production activities in Thailand. The company is traded at the Canadian Venture Exchange. The remaining common shares held were disposed of in the quarter. The convertible debentures were issued in the amount of $Can 22,029 and bear interest at the rate of 10% per annum. The shares are convertible into common shares at the rate of 30 common shares for each whole multiple of $10.50 of convertible indebtedness until March 31, 2005. After that date, the debentures are convertible into 27 common shares for each whole multiple of $10.50 of indebtedness. The maturity date of the debentures is March 30, 2006.

5. **Prior period adjustments**

The 31 December 2003 balance sheet comparative figures have been restated to reflect additional future income tax liabilities, totalling $1,254,750, which arose as a result of the fair value increment to petroleum and natural gas properties on the acquisition of Petroleum Development Associates LLC, Petroleum Development Associates (Asia) LLC, Petroleum Development Associates (Spain) LLC and Asia Petroleum Developments Limited on 27 August 2003. In addition, the corresponding goodwill which arose in respect of the future income tax liability of $777,459 had been included in Property, plant and equipment and, accordingly, an adjustment has been made to the 31 December 2003 balance sheet comparative figures to correctly reflect this in Goodwill. The effect of these adjustments is shown below.

	Consolidated balance sheet as at 31 December 2003		
	As reported	**Change**	**As restated**
Assets			
Property, plant and equipment	9,010,128	(777,459)	8,232,669
Goodwill	309,100	2,032,209	2,341,309
Liabilities			
Future income taxes	(777,459)	(1,254,750)	(2,032,209)

6. **Share capital**

	Shares	**Capital in value**
1 January 2004	13,000,002	13,000,002
Additional shares issued to existing shareholders on merger with KGO	10,920,000	-
Shares issued on merger with KGO at book value	8,289,406	3,049,454
Conversion of special warrants	10,989,163	5,327,363
Options exercised for cash	199,000	99,613
31 March 2004	43,397,571	21,476,432
Shares issued to acquire Asahan Oil Investments BV and Glagah Kambuna Exploration BV	1,004,950	701,804
30 June 2004	**44,402,521**	**22,178,236**

7. **Special Warrants**

Special warrants issued in 2003 were converted to common shares in the quarter to 31 March 2004.

The options attached to the special warrants have yet to be exercised. 10,989,163 options are exercisable at $Can 1.00 until 29 January 2005.

In addition the following compensation options were granted to Canaccord as a placement agent:

1,098,914 exercisable at $Can 0.70 until 29 January 2005
549,457 exercisable at $Can 1.00 until 29 January 2005

8. Contributed surplus

1 January 2004	98,555
Amortization of fair value of stock options	87,912
	186,467

9. Stock Options

A Stock Option Plan has been established for the benefit of directors, officers and key employees. Under the plan, the terms, conditions and limitations are determined at the discretion of the Board of Directors. The options are exercisable until 19 February 2009, at Can $2.00 per share and vest over periods ranging from immediately to three years. 2,432,500 common shares have been authorized for grant under the terms of the plan in 2004.

The Company calculated the value of stock-based compensation using a Black-Scholes option pricing model to estimate the fair value of stock options at the date of grant. The estimated fair value of options is amortized to expense over the options' vesting period. For stock options granted during 2004, $30,852 has been charged to income in three months ended 30 June 2004 ($87,912 for the six months ended 30 June 2004 and $30,852 credited to contributed surplus for the three months ended 30 June 2004 ($87,912 for the six months ended 30 June 2004).

The assumptions made for the options granted during 2004 include a volatility factor of expected market price of 70%, a weighted average risk-free interest rate of 6.0%, no dividend yield and a weighted average expected life of options of three years. The weighted average grant date fair value was $0.14 per share.

The following table summarizes changes in the Company's stock options during the period:

	Number of shares	**Exercise Price per Share**	**Weighted Average Exercise Price**
Outstanding, beginning of period	2,332,500	$0.40 to $2.00	$1.93
Granted	100,000	$2.00	$2.00
Cancelled	Nil	Nil	Nil
Exercised	Nil	Nil	Nil
Outstanding, end of period	2,432,500	$0.40 to $2.00	$1.93

The following table summarizes information about stock options outstanding at June 30, 2004:

Exercise Price	**Number of Shares Outstanding**	**Weighted Average Remaining Life (Years)**	**Number of Shares Exercisable**
$0.40	100,000	5	100,000
$0.50	5,000	5	-
$2.00	2,327,500	5	475,000
Total	**2,432,500**		**575,000**

10. Subsequent event

Serica Placement

On 6 August 2004 Serica Energy Corporation completed a private placement of 13,750,000 Special Warrants at a price of C$0.80 per Special Warrant for gross subscription proceeds of C$11 million. Each Special Warrant is convertible, for no additional consideration, into one Common Share and one-half of one Common Share Purchase Warrant of the Corporation. Each whole Purchase Warrant entitles the holder to purchase one additional Common Share within two years of the closing date of the private placement, at a price of C$1.20 per share.

Firstearl Acquisition

On 10 August 2004 Serica Energy Corporation acquired Firstearl Limited, a private British-registered company, with sole assets of cash and marketable corporate securities. The total consideration payable by the Corporation for the acquisition of Firstearl Limited was approximately C$11.3 million. The consideration was satisfied by the issue of 3,043,750 Common Shares and 1,521,875 Purchase Warrants having an exercise price of C$1.20 per share expiring 2 years from the closing date, with the balance of the consideration to be paid in cash.

11. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

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 Corporation's control, including: the impact of general economic conditions where Serica Energy Corporation operate, 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 Corporation'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 Corporation will derive therefrom.