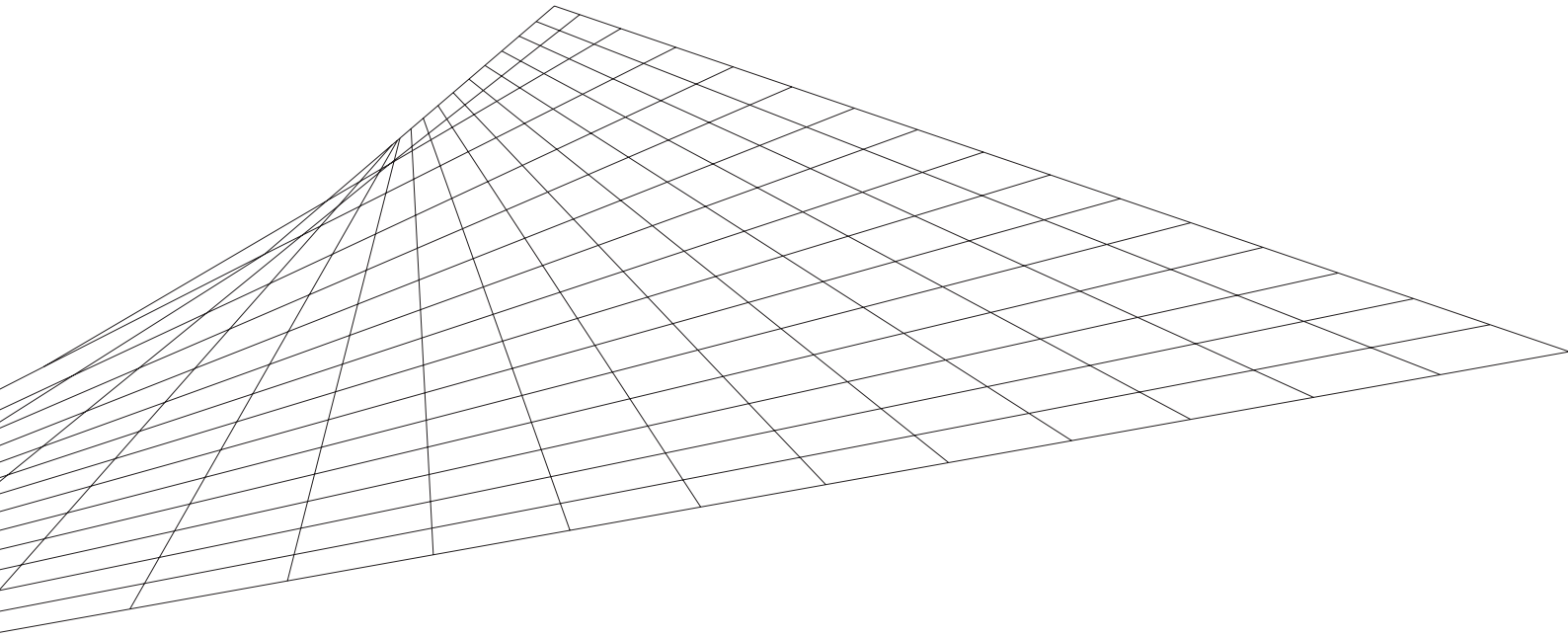




# SERICA2011



Serica Energy plc is an oil and gas exploration, development and production company with activities in Europe, Africa and Indonesia.

The Company's shares are listed on AIM in London and on the Canadian TSX Exchange under the symbol SQZ.

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## HIGHLIGHTS

### Financial

- 2011 sales revenue of US\$27.1 million
- Gross profit before expenses of US\$1.5 million
- Loss before tax of US\$11.3 million (from continuing operations)
- Increased field allowances improve Columbus economics

### At the year-end:

- Cash position of US\$20 million
- No debt
- Carry forward tax losses available of approximately US\$138.7 million

### Operations

#### Columbus field:

- Negotiations concluded with BG for export via Lomond platform, subject to final documentation, partner and Board approvals
- Clears way for project sanction. DECC approval targeted for 2Q 2012
- All engineering and design studies completed
- Environmental Statement has been submitted and approved
- NSAI estimate 11.2 mmbob gross reserves in Block 23/16f

#### Other UK assets:

- Well to appraise Spaniards discovery scheduled for 3Q 2012.
- Wells planned for Doyle and South Otter subject to farm out
- Two further UK licences awarded at year end

#### Namibia:

- Awarded an 85% interest in central Luderitz Basin blocks, offshore Namibia
- Large structures identified
- Secured farm-out with BP. BP will carry the full cost of extensive 3D seismic survey and pay Serica's past costs to earn 30%
- Polarcus Seismic Limited contracted to begin up to 4,150 sq km seismic acquisition in April 2012
- Serica will remain as operator during the seismic acquisition phase

#### Ireland:

- Six new blocks awarded in Irish Rockall Basin, Serica operator
- Three large prospects mapped: Muckish, Middleton, West Middleton
- Farm-out campaigns commenced for licences in the Slyne and Rockall Basins

#### Morocco:

- Multi salt diapir and tilted fault block prospects identified and mapped
- Farm-out process underway prior to drilling the first well

#### Indonesia:

- Sale of Indonesia exploration properties to Kris Energy in October 2011
- Kambuna gas field average daily production of 35 mmscf of gas and 2,363 bbl/day of condensate
- Average prices realised for gas and condensate during the year were US\$6.16 per mcf and US\$115.8 per barrel respectively

### Outlook

#### Company now focused on two business units:

- UK North Sea & East Irish Sea and
- International exploration in four Atlantic Margin basins

#### Field development expected for Columbus:

- Project sanction anticipated 1H 2012 with production expected to commence 2014 or early 2015

#### Exploration portfolio with high impact potential:

- Major 3D seismic survey of up to 4,150 sq kms in Namibia starts in April 2012
- Farm-outs planned for Ireland and Morocco to bring forward drilling
- Spaniards appraisal well to be drilled in 3Q 2012
- Doyle and South Otter prospects await farm-in partners

## SUMMARY FOR 2011

	<b>Proven and probable 2011</b>	<i>Proven and probable 2010</i>
<b>Company net oil and gas reserves</b>		
(working interest basis)		
<b>At 31 December</b>		
Gas – million cubic feet	28,000	<i>33,800</i>
Condensate and LPG – barrels	1,900,000	<i>2,400,000</i>
Total – barrels of oil equivalent	6,800,000	<i>8,300,000</i>
<b>Financial position</b>		
Market capitalisation – US\$	50 million	<i>122 million</i>
Net current assets – US\$	21 million	<i>21 million</i>
Cash – US\$	20 million	<i>30 million</i>
Number of shares in issue	176,660,311	<i>176,570,311</i>
Number of shares fully diluted	188,743,311	<i>191,334,811</i>

## LICENCE INTERESTS

Serica holds offshore licence interests in the UK North Sea, the UK East Irish Sea, Ireland, Namibia, Morocco and Indonesia.

The following table summarises the Company's Licences as at 31 December 2011.

Block(s)	Description	Role	% at 31/12/11	Location
<b>UK</b>				
15/21g	Exploration	Non-operator	21%	Central North Sea
15/21a (part)	Exploration	Non-operator	21%	Central North Sea
22/19c	Exploration	Non-operator	50%	Central North Sea
23/16f	Columbus Field – Development planned	Operator	50%	Central North Sea
47/2b (split)	Exploration	Non-operator	37.5%	Southern North Sea
47/3g (split)	Exploration	Non-operator	37.5%	Southern North Sea
47/7 (split)	Exploration	Non-operator	37.5%	Southern North Sea
47/8d (part)	Exploration	Non-operator	37.5%	Southern North Sea
110/2d	Exploration	Operator	100%	East Irish Sea
110/8b	Exploration	Operator	100%	East Irish Sea
113/26b	Exploration	Operator	65%	East Irish Sea
113/27c	Exploration	Operator	65%	East Irish Sea
210/19a	Exploration	Operator	100%	Northern North Sea
210/20a	Exploration	Operator	100%	Northern North Sea
<b>Ireland</b>				
27/4	Exploration	Operator	50%	Slyne Basin
27/5 (part)	Exploration	Operator	50%	Slyne Basin
27/9	Exploration	Operator	50%	Slyne Basin
5/17	Exploration	Operator	100%	Rockall Basin
5/18	Exploration	Operator	100%	Rockall Basin
5/22	Exploration	Operator	100%	Rockall Basin
5/23	Exploration	Operator	100%	Rockall Basin
5/27	Exploration	Operator	100%	Rockall Basin
5/28	Exploration	Operator	100%	Rockall Basin
11/5	Exploration	Operator	100%	Rockall Basin
11/10	Exploration	Operator	100%	Rockall Basin
11/15	Exploration	Operator	100%	Rockall Basin
12/1	Exploration	Operator	100%	Rockall Basin
12/6	Exploration	Operator	100%	Rockall Basin
12/11 (part)	Exploration	Operator	100%	Rockall Basin
<b>Namibia</b>				
2512A	Exploration	Operator	85%	Luderitz Basin
2513A	Exploration	Operator	85%	Luderitz Basin
2513B	Exploration	Operator	85%	Luderitz Basin
2612A (part)	Exploration	Operator	85%	Luderitz Basin
<b>Morocco</b>				
Foum Draa	Exploration	Non-operator	25%	Tarfaya-Ifni Basin
Sidi Moussa	Exploration	Non-operator	25%	Tarfaya-Ifni Basin
<b>Indonesia</b>				
Glagah Kambuna TAC	Kambuna Field – Production	Non-operator	25%	Offshore North Sumatra

## CHAIRMAN'S REPORT

### Dear Shareholder

2011 has been a year of positive change for Serica, a year during which the Company has disposed of its Indonesian exploration assets and has repositioned itself with a growing portfolio of properties in emerging new areas which we believe have great potential to build a thriving and exciting business.

The Company is now focussed on two business units - our UK North Sea and East Irish Sea business and our growing international exploration business. These two business units have significantly different characteristics but each has considerable unrealised value to be unlocked. Serica has the skill sets to exploit this potential and we expect to see considerable progress to this end in 2012.

### UK Assets

Our UK business is centred on the Columbus field discovered by Serica in 2006. Bringing that field onto production has been our main UK focus but has been frustrated over the past couple of years or so by the difficulties in reaching agreement with adjacent infrastructure holders. As a gas/gas condensate field it can only be produced if a transportation route for the gas can be accessed. We and our partners in the field have been working towards reaching agreement with BG, as operator of the adjacent Lomond platform, with the target for agreement being the first quarter of 2012. I am very pleased to be able to say that we have now, subject to final documentation, Board and partner approvals, concluded negotiations with BG which will allow us to sanction the project.

Serica, as the Columbus operator, submitted the Field Development Plan to the Department of Energy and Climate Change in June 2011 on behalf of all the Columbus partners. The Environmental Statement has also been submitted and has been approved. All of the basic engineering and design studies have been completed. With the final principles on cost sharing and transportation awaiting Board approvals and the Chancellor's recent announcement on field allowances improving Columbus economics, there is little to stand in the way of the project progressing and we are aiming for early sanction to enable first gas for end 2014/early 2015.

An independent review of reserves in the Columbus field has also been completed. As in past years this was conducted by Netherland Sewell & Associates ("NSAI") who interpret gross 2P Columbus reserves to be 16.7 million barrels of oil equivalent. These reserves are split between blocks 23/16f operated by Serica and 23/21 operated by BG. To be consistent with final cost sharing agreements between the participants in the blocks, NSAI have interpreted the percentage of reserves lying in Block 23/16f as 67% and interpret gross 2P Columbus reserves lying in Serica's Block 23/16f to be 11.2 million barrels oil equivalent, a net 5.6 million barrels to Serica. This reduction of 0.7 million barrels from last year's reported figures is due entirely to the adjusted split of reserves between the blocks.

There is considerable upside growth potential in our UK business. In Block 15/21g we are committed to drill a well to explore the possibility of an extension to the Spaniards discovery

lying in the adjacent Block 15/21a (part). This is expected to start in the third quarter. Serica will have a 21% field interest in the event that this well is successful and the extension of Spaniards is proven.

Two further UK wells are planned in other blocks which are both operated by Serica. In East Irish Sea Block 113/27c, the Doyle prospect is ready to drill. Due to the proximity of this prospect to acreage offered in the recently announced 27th Licensing Round, we will probably wish to defer a decision on the well at least until applications for the Round are closed but we are discussing the possibility of farming-out part of our holding in the block with parties who have expressed an interest in joining us. In the Northern North Sea, Block 210/20a contains several clearly defined prospects and the Company plans to bring in a partner before drilling. We have a 100% interest in the block.

Serica received a boost at the year end with the award of two further UK licences under the delayed 26th Licensing Round. One of these, consisting of four part blocks surrounding the York gas field in the Southern North Sea, contains a number of low risk gas prospects. The licence is operated by Centrica who also operate the adjacent York field. The second licence, covering Block 110/8b in the East Irish Sea, holds a gas prospect lying just south of the Morecambe gas field operated by Centrica. We shall be undertaking work on both blocks in 2012.

In summary, Serica has a valuable business in the UK with reserves to be brought on-line and well defined prospects to be drilled. Reaching a conclusion on cost sharing and transportation allows us to develop Columbus, an important turning point for the Company, but it will still be a couple of years before we see production from the field. We have therefore been investigating the possibility of acquiring UK production or to merge the Company's UK business with a business which brings UK production. Such steps would result in making the business far more efficient from the perspective of risk balance and help us to accelerate our drilling programme and unlock value. We shall continue to investigate the possibilities. In the meantime we are looking forward to developing Columbus and finally bringing it onto production.

### Non-UK Assets

We have also made great progress outside the UK during 2011. The sale in October of our exploration properties and operating subsidiaries in Indonesia has allowed us to reposition the Company's portfolio into new areas which we believe hold far greater potential. These efforts culminated late in the year with material awards being made to Serica in the Atlantic waters offshore Ireland and Namibia. Coupled with our existing acreage in Ireland and Morocco, these awards have given us a strong Atlantic margin presence for a company of Serica's size.

We now have the opportunity to build on this new exploration portfolio. Apart from an indirect interest in the Bream oil field in Norway, which is awaiting a development decision, and the direct holding that we retain in the producing Kambuna gas field in Indonesia, the major impact of our non-UK business lies in these

potentially exciting exploration projects located in the deep water basins of the Atlantic margins of Ireland, Morocco and Namibia. The Company is continuing to look for more opportunities showing the same material potential elsewhere.

The characteristics of our Atlantic margin licences are very different from the interests that we hold in the UK. The size of the prospects in each area are of a different order of magnitude and the size of the licence blocks is very large (approximately 12,700 square kilometres in the case of the Morocco blocks and appropriately 17,400 square kilometres in the case of the Namibian blocks). They are also generally located in much deeper water. Serica's objectives in each case, therefore, have been to high-grade the prospects through a complete and thorough review of all seismic information and to bring in partners with the appropriate deep water technology once there is clearly established prospectivity.

This strategy has met with very real success in Namibia where, in December, we were awarded an 85% interest in a large licence offshore in the central Luderitz Basin. The Luderitz Basin displays many of the attributes required for significant accumulations of oil and gas, including clear evidence from existing seismic data of very large potential trapping mechanisms, but there has been very little exploration drilling to-date. With water depths in Serica's blocks ranging from 300 to 3,000 metres the blocks are at the early, frontier stage. Drilling in these depths of water requires sophisticated drilling techniques and equipment and is very costly.

We are very pleased, therefore, that BP has agreed to farm-in to our Namibian licence to earn a 30% interest by paying a sum covering our past costs and meeting the full cost of a large 3D survey covering 4,150 square kilometres. Serica will remain as operator during the seismic acquisition phase and has contracted Polarcus Seismic Limited to start the acquisition programme in April. In the event that the seismic data substantiates the potential which we believe exists in the blocks we will wish to drill to prove the presence of hydrocarbons. To this end we have given BP the option to earn a further 37.5% in the licence by meeting the cost of a well drilled to the Barremian. By entering into this transaction we have been able to make a very early start on the licence whilst limiting our financial exposure and retaining both early stage operatorship and a significant interest in what could become a very valuable licence if the drilling is successful.

Our licences offshore Morocco and in the Atlantic offshore Ireland also contain many large prospects all of which hold the potential for material hydrocarbon discoveries and we are now bringing forward plans for both areas. The blocks in Morocco were awarded in 2009. Serica has undertaken a very detailed re-interpretation since then of existing 3D seismic data and this work has demonstrated the presence of a large number of salt diapir-related prospects and tilted fault block plays. Given the water depths of up to 2,000 metres we are now in the farm-out stage prior to moving forward to drilling the first well.

In Ireland we have mapped significant prospects lying close to an existing discovery. With the award to Serica in October 2011

of the blocks containing the Midleton and West Midleton prospects we now have two new prospects to complement the very sizeable Muckish prospect. Serica has a 100% interest in the 12 blocks containing these three large prospects in the Rockall Basin lying close to the Dooish gas condensate discovery and is now reviewing opportunities to invite partners to join in a drilling campaign.

To the south, Serica has a 50% interest as operator in three Slyne Basin blocks and part blocks where we encountered oil in the Jurassic with our first well drilled in 2009. Subsequent evaluation of information from this well combined with re-interpretation of seismic data has now shown the presence of further Jurassic oil prospects in the blocks as well as deeper Triassic gas prospects.

In summary, Serica's portfolio of Atlantic margin acreage, in four distinct basins, exhibits the potential for significant discoveries of oil or gas and we are optimistic about the opportunities which these prospects bring to the Company. The exploration and development nature of our assets in the UK, coupled with the very high-impact prospects which we hold outside the UK in new frontier areas, places the Company in an enviable position with two businesses both of which have material upside.

#### **Finances and management**

We have continued to manage our finances prudently during this period of change whilst we have added materially to our exploration assets. At the year-end, our cash position of US\$20 million, with all debt repaid, was higher than our net cash position at the start of the year when we had US\$11.7 million of debt. Net current assets at the year-end were unchanged over the year. This was achieved despite falling revenues from the Kambuna field, which is now in decline. Whilst our expenditure levels are expected to rise as we take on new projects the Company continues to contain its finances as it enters 2012. The transaction with BP in Namibia will enable the Company to accelerate its programme there with minimum financial impact and we shall be reviewing financing options for Columbus now that we are nearing project sanction.

2011 has been a tough but ultimately rewarding year, a year in which all of the employees at Serica committed themselves fully to the task

## 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 2011.

Serica's activities are based in the UK, Ireland, Namibia, Morocco and the retained interest in the Kambuna Field in Indonesia. References to the "Company" include Serica and its subsidiaries where relevant. All figures are reported in US dollars ("US\$") unless otherwise stated.

## REVIEW OF OPERATIONS

### United Kingdom

#### Central North Sea: Block 23/16f - Columbus Field

Block 23/16f covers an area of approximately 52 square kilometres in the UK Central North Sea and contains the majority of the Columbus gas field. The gas in Columbus is rich in condensate and therefore requires processing before it can enter a gas transportation system. Serica has a 50% interest in Block 23/16f and is operator for the block.

The field extends from Block 23/16f to the south into Block 23/21 which contains the Lomond field and is operated by BG International Limited ("BG"). Serica has been actively co-operating with BG in the front-end engineering design for a new Bridge-Linked Platform to handle production from the Columbus field. The Bridge Linked Platform is planned to be installed adjacent to the existing Lomond field platform and to receive production from Columbus and other nearby fields for processing on the Lomond platform and onward transportation to the CATS and Forties pipeline systems. The use of the Bridge-Linked Platform forms the basis of the Field Development Plan agreed by the Columbus field partners (Serica, Endeavour Energy UK Limited, EOG Resources United Kingdom Limited, BG and SSE E&P UK Limited) and submitted to DECC in June 2011.

With field engineering plans largely complete and awaiting DECC approval, discussions have taken place with BG throughout the period to date to determine final cost sharing arrangements and the relative interests of the 23/16f and 23/21 partners in the Columbus field. Subject to final documentation and the approval of partners, negotiations have now been concluded to enable the project to proceed and financing options to be put in place. Project sanction is anticipated to be sought in the first half of 2012 and it is expected that production will commence in late 2014 or early 2015.

Independent consultant Netherland, Sewell & Associates ("NSAI") carried out a reserves report on the Columbus field for

the end of 2011. This report estimates that the gross Proved plus Probable Reserves of the field are 70.6 bcf of gas and 4.9 mm bbl of liquids, a total of 16.7 mmbbl. Serica holds a 50% interest in those Columbus reserves lying in Block 23/16f. After providing for reserves lying in the adjacent block, NSAI estimates Serica's share of proved and probable reserves in the field to be 23.6 bcf of sales gas and 1.6 mmbbl of liquids, a net 5.6 mmbbl to Serica.

#### Central North Sea: Block 15/21g and 15/21a (part) – Spaniards Appraisal

Block 15/21g, in which Serica was initially awarded a 30% interest, lies immediately west of the Scott oil field and contains a potentially significant extension to the existing Jurassic oil discovery well 15/21-38z in Block 15/21a, which flowed 2,660 bpd of 25° API oil from a good quality Jurassic-aged Upper Claymore sand. Interpretation of pressure data, supported by the presence of oil saturations in down-dip well 15/21-2 indicates that the Spaniards discovery tested by well 15/21-38z may extend across both 15/21a and 15/21g.

In June 2011, the Block 15/21g partners, announced they had agreed terms to acquire a 70 per cent interest in part of Block 15/21a. The area in Block 15/21a to be acquired includes the 15/21a-38z discovery. In consideration, the Block 15/21g group agreed to assign to the Block 15/21a group a 30 per cent interest in Block 15/21g, and agreed to fund the cost of the first well to appraise the Spaniards discovery. A subsequent appraisal well, if deemed necessary and approved by the partnership, would be funded on promoted terms by the current Block 15/21a partners, after which funding for any further wells would be by equity share.

The amalgamation agreement to combine Block 15/21g and Block 15/21a was finalised in January 2012. Serica now has a 21% interest in the amalgamated area covering the Spaniards discovery and will be required to contribute a 30% share of the cost of drilling the first well to appraise the discovery and a 17.14% share of the cost of drilling a follow-up well.



## REVIEW OF OPERATIONS CONTINUED

Plans are in place to acquire site survey data and secure a rig to drill the Spaniards appraisal well in Q3 2012.

### **Central North Sea: Block 22/19c**

Block 22/19c is located approximately 20 kilometres to the west of Serica's Columbus field. Serica holds a 50% interest in the block which is operated by Premier.

### **East Irish Sea: Block 110/2d**

Serica holds a 100% interest in this block. Technical work is being carried out to assess the block's potential.

### **East Irish Sea: Block 110/8b**

In December 2011, in the final stage of the 26th Round of UK Offshore Licensing announced by the Department of Energy and Climate Change, the Company was awarded a 100% interest and the operatorship of Block 110/8b in the East Irish Sea. The work commitment comprises a 3D seismic reprocessing programme planned to delineate a gas prospect, Darwen North, which has been identified in the block.

The block also contains a small undeveloped oil discovery which will be re-evaluated.

### **East Irish Sea: Blocks 113/26b and 113/27c – Doyle Prospect**

Serica has a 65% interest in these blocks. Work during 2011 has focussed on maturing the Doyle gas prospect lying in the north of Block 113/27c. Plans are being brought forward for a well to be drilled in 2012 to test the Doyle prospect although, in view of open acreage nearby being offered in the UK 27th Licensing Round, this may be deferred at least until applications are closed.

### **Northern North Sea: Blocks 210/19a and 210/20a**

These blocks, in which Serica has a 100% interest, are contiguous part blocks lying immediately adjacent to the Otter oilfield. A number of oil prospects have been provisionally identified on the blocks at Jurassic Brent Group and Home Sand levels. Two of the Brent Group prospects are down-faulted traps, an emerging and successful play in the northern North Sea, and the other is a conventional Brent fault block. The fourth prospect is in a Jurassic reservoir known as the Home Sand.

Serica is planning to drill the first well to test one of the prospects, known as the South Otter prospects, in 2012. Before drilling, Serica is likely to seek a partner.

### **Southern North Sea: Blocks 47/2b (Split), 47/3g (Split), 47/7 (Split) and 47/8d (Part)**

In December 2011, Blocks 47/2b (Split), 47/3g (Split), 47/7 (Split) & 47/8d (Part) in the Southern North Sea were offered under a single licence to a group in which Serica has a 37.5% interest. Centrica is the operator for the group. These blocks are contiguous part blocks immediately adjacent to the York field, also operated by Centrica. A number of gas prospects, including a possible extension to North York, have been provisionally identified on the blocks at both the Leman (Permian) and Namurian (Carboniferous) levels. The work obligation comprises a 3D seismic survey and reprocessing of existing seismic data.

## **Ireland**

### **Slyne Basin: Blocks 27/4, 27/5 (west) and 27/9 – Liffey & Boyne Prospects**

These blocks cover an area of 611 square kilometres in the Slyne Basin off the west coast of Ireland. Serica holds a 50% interest in the blocks and operates the licence.

The shallow Jurassic oil discovery made by Serica in 2009 in the Bandon exploration well 27/4-1 provides clear evidence of the presence of oil in this part of the Slyne Basin although the discovery itself was not commercial. Deeper Jurassic oil prospects of potentially commercial size are, however, evident at the Liffey and Boyne locations in addition to the separate deeper gas prospects at those locations. The Company has acquired site survey data in preparation for a drilling programme to test these prospects and is currently seeking a farm-in partner.

### **Rockall Basin: Blocks 5/17, 5/18, 5/22, 5/23, 5/27, and 5/28 – Muckish Prospects**

Serica holds a 100% working interest in six blocks covering a total area of 993 square kilometres in the north-eastern part of the Rockall Basin off the west coast of Ireland.

The Rockall Basin extends over 100,000 square kilometres in which only three exploration wells have been drilled to date. The basin is therefore regarded as very underexplored. Of these exploration wells, the 12/2-1 Dooish gas-condensate discovery, approximately nine kilometres to the south of the licence, encountered a 214 metre hydrocarbon column.

A large exploration prospect, Muckish, has been mapped on Serica's licence. Further evaluation of the data has increased confidence in the potential of the prospect, which covers an area of approximately 30 square kilometres in a water depth of 1,450 metres and is therefore large. Serica intends to find a partner to join in drilling a well on Muckish.

### **Rockall Basin: Blocks 11/5, 11/10, 11/15, 12/1, 12/6 and 12/11(part) – Middleton Prospects**

In October 2011, the Company was awarded Licensing Option 11/1 covering six blocks in the Irish Rockall Basin under the Irish 2011 Atlantic Margin Licensing Round. Serica now has two licences to explore some 2,220 square kilometres in the Rockall Basin. The 2011 licence covers an extended area of proven hydrocarbon potential in which large prospective structures have already been identified from existing 3D seismic data.

The area covered by the licence award contains two pre-Cretaceous fault block prospects, Middleton and West Middleton which are analogous to the proven gas-condensate bearing Dooish discovery lying immediately to the east. These complement and provide additional diversity to the Muckish prospect lying in Serica's acreage just to the north east and the award will enable a comprehensive exploration programme covering the Muckish and Middleton prospects. Given the size of the prospects and their position in a proven gas-condensate bearing basin, the award of the licence significantly expands the options open to Serica to deliver an active drilling campaign in the area.

Under the terms of the licence award Serica will undertake 2D and 3D seismic reprocessing work and other geological studies in the first two years to firm up the prospects, following which the Company has an option to convert the licence into a full Exploration Licence.

## **Namibia**

### **Luderitz Basin: Blocks 2512A, 2513A, 2513B and 2612A (part)**

In November 2011, Serica confirmed the announcement made by the Namibian Ministry of Mines and Energy of the award to Serica Energy Namibia B.V., a wholly owned subsidiary of Serica, of an 85% interest in a Petroleum Agreement covering four large blocks and part blocks in the prospective Luderitz Basin, offshore Namibia. The award to Serica, concluded in December, was in partnership with The National Petroleum Corporation of Namibia (Pty) Limited and Indigenous Energy (Pty) Limited. Serica is the operator of the group.

In respect of the award, Serica agreed to make the following signature payments to NAMCOR:

- US\$1 million cash payment to NAMCOR
- US\$2 million through an allotment to NAMCOR of 6 million ordinary shares of Serica (which represents approximately 3.28% of the enlarged issued share capital of Serica); the actual terms being subject to variation as described below

The issue of the shares to NAMCOR is intended to provide NAMCOR and the Government of the Republic of Namibia with an additional return in the event of success with the project. To the extent that the value of 6 million ordinary shares is more than US\$2 million on the day of allotment, then Serica may reduce the number of shares allotted; alternatively, if the value is less than US\$2 million, Serica may either increase the number of shares allotted or pay the cash equivalent of the difference to NAMCOR. The US\$1 million cash payment was made to NAMCOR in January 2012 and Serica expects to allot the shares in the second quarter 2012.

The Luderitz Basin is one of three under-explored sedimentary basins lying south of the Walvis Ridge offshore Namibia. The licence award comprises Blocks 2512A, 2513A, 2513B and 2612A (part) in the centre of the basin and covers an area of approximately 17,400 square kilometres. Existing 2D seismic data demonstrates the existence of large four-way dip closed structures lying wholly in the undrilled deep water parts of the licence area together with the potential for sizable traps in stratigraphic pinch outs towards the shelf margin.

During the initial four-year exploration period of the licence, Serica is required to conduct an extensive 3D seismic survey and undertake reprocessing of existing 2D seismic data. In March the Company announced that it had agreed to farm-out an interest in the licence to BP. Under the transaction, BP will pay to Serica a sum covering Serica's past costs and earn a 30% interest in the licence by meeting the full cost of an extensive 3D seismic survey. As a result of the farm-out, Serica's interest

in the licence following completion of the seismic survey will be 55%. Contemporaneously, Serica announced that it had signed a contract with Polarcus Seismic Limited to acquire up to 4,150 square kilometres of 3D seismic across the licence. The survey will considerably exceed Serica's obligations for seismic acquisition under the licence terms.

The deep water geological basins offshore Namibia, including the Luderitz Basin, are at the early frontier stage of exploration. Although the presence of very large structures have been shown to exist from seismic surveys, very few wells have been drilled in the deeper water Namibian basins to date and the full hydrocarbon potential of the area has not yet been fully tested. Water depths in Serica's Luderitz Basin blocks range from 300 to 3,000 metres. Drilling in these depths of water, whilst becoming more commonplace in the industry, requires sophisticated drilling techniques and equipment and is very costly.

Serica has therefore granted an option for BP to increase its interest in the Licence by meeting the full cost of drilling and testing an exploration well to the Barremian level before the end of the first four year exploration period. In the event that this option is exercised, Serica's interest in the Licence will be 17.5% carried through the first well, which will have very considerable value if the exploration drilling is successful. Serica will continue to be the operator of the licence during the initial seismic period with BP taking over as operator if it exercises its option to drill and test a well.

## **Morocco**

### **Sidi Moussa and Fom Draa Petroleum Agreements**

Serica holds a 25% interest in the Sidi Moussa and adjacent Fom Draa Petroleum Agreements offshore Morocco. The blocks together cover a total area of approximately 12,700 square kilometres in the sparsely explored Tarfaya-Ifni Basin and extend from the Moroccan coastline into water depths reaching a maximum of 2,000 metres. A drilling decision is required to be made at the end of the initial phases of the Agreements.

The Tarfaya-Ifni Basin is geologically analogous to the oil producing salt basins of West Africa. Sidi Moussa and Fom Draa are covered by over 5,200 square kilometres of modern 3D seismic data and over 7,000 kilometres of 2D seismic data. Evaluation of this data is now largely complete and demonstrates the presence of a large number of salt diapir related prospects and tilted fault block plays. The analysis is now being made available to potential farm-in partners which Serica and its partners will require before entering the drilling phase.

## **Spain**

The Company held a 75% interest and operatorship in the Abiego, Barbastro, Binéfar and Peraltilla Exploration Permits onshore northern Spain. Serica and its joint venture partner gave notice to relinquish the permits in October 2011.

## REVIEW OF OPERATIONS CONTINUED

### Indonesia

A summary of Serica's interests in Indonesia and developments during 2011 is detailed below.

In Q4 2010 the Company announced it was undertaking a strategic review of its operations in South East Asia. As at 30 June 2011, as a result of the decision by the Company to dispose of its remaining Indonesian assets and a conditional sale agreed in June to dispose of the operations, the various assets and associated liabilities of the Company's entire Indonesian business formed part of a disposal group and were presented as held for sale in the Group Balance Sheet at 30 June 2011. The financial results of this Indonesian business disposal group were disclosed as discontinued operations and separate from the results of the retained business segments. During the third quarter, the Company continued to review proposals to realise the value of its Indonesian properties.

In October 2011, Serica announced the sale of its Indonesian exploration properties to Kris Energy Limited. The sale, with an effective date of 1 September 2011, comprised Serica's wholly owned subsidiary, Serica Indonesia Holdings BV, which excluded Serica's interest in the producing Kambuna gas field but which held Serica's Indonesian operating subsidiaries and the following exploration properties:

- An operated 30% interest in the Kutai PSC onshore and offshore East Kalimantan
- An operated 100% interest in the East Seruway PSC offshore North-West Sumatra, and
- Rights relating to certain Indonesian Joint Study Areas

The base consideration for the transaction with Kris Energy Limited amounted to US\$3.14 million together with a further US\$0.3 million in respect of expenditures relating to the properties since the effective date. These sums were received on completion in October 2011 and a further contingent consideration payment of US\$1.0 million was received in December 2011, following the award of a licence in a Joint Study Area to Kris Energy Limited. A further contingent consideration payment of up to US\$0.5 million becomes payable to Serica in the event of a future award to Kris Energy Limited of a second licence interest in a Joint Study Area.

Serica's sole remaining interest in Indonesia subsequent to the sale is its 25% interest in the Glagah Kambuna Technical Assistance Contract ("TAC"). This asset is being held by Serica for the time being and whilst the Company will continue to benefit from the cash flow it receives from this field it does not consider the asset to be core to its forward strategy.

#### Glagah Kambuna TAC – Kambuna Field, Offshore North Sumatra, Indonesia

The Glagah Kambuna Technical Assistance Contract ("TAC") covers an area of approximately 380 square kilometres and lies offshore North Sumatra. Serica holds an interest of 25% in the TAC which contains the producing Kambuna gas field.

The Kambuna gas is used for power generation to supply electricity to the city of Medan in North Sumatra and for industrial uses. The gas sales prices per thousand standard cubic feet under the contracts with PLN and Pertiwi Nusantara Resources ("Pertiwi") in December 2011 were approximately US\$5.6 and US\$7.0 respectively, escalated at 3% per annum. Kambuna gas yields significant volumes of condensate (light oil) which is sold to the state oil company Pertamina at the official Attaka Indonesian Crude Price less 11 cents per barrel.

Gross Kambuna field production in 2011 was 12,653 million standard cubic feet of gas and 862,600 barrels of condensate, equivalent to gross average daily production for the year of 35 mmscfd and 2,363 bbl/day. Average prices realised during the year for gas and condensate sales respectively were US\$6.16 per mcf and US\$115.8 per barrel. The highest price achieved during 2011 is US\$126.1 per barrel, achieved in April 2011.

Following the reserve revision at the end of 2010 the field has now commenced its anticipated natural decline and production rates are expected to fall in line with reservoir pressure depletion. During the fourth quarter the field produced at an average rate of 23 mmscfd with approximately 1,489 barrels per day of condensate. Average prices realised during the quarter for gas and condensate sales respectively were US\$6.18 per mcf and US\$114.1 per barrel.

Compression facilities have been successfully installed in February 2012 to enhance the production capacity of the field after the first quarter of 2012. During 2011 the field operator reviewed options to drill an additional well, Kambuna #5, to exploit the gas bearing potential of a likely northern extension of the field. It had been intended that this well be drilled in the latter half of 2011 but the lack of a suitable rig at an acceptable price in the timeframe resulted in the deferral of the well. It is now considered unlikely this well will be drilled in 2012 although discussions may reopen with Pertamina with a view to investigating this possibility.

Serica commissioned an independent reserves audit on the Kambuna field for its 2011 annual reserves filings. This new reserves report, carried out by RPS Energy, the same consultants as used by the operator, estimates that at 31 December 2011 the gross Proved plus Probable Reserves of the field are 17.5 bcf of sales gas and 1.1 mm bbl of condensate, a total of 4.7 mmoeb. These new estimates include slight revisions in reserves from the figures previously reported by Serica in 2010.

The Company has assessed the expected useful life of the future economic benefits embodied in the asset and considers that, given the relatively short remaining field life, the production profiles associated with proved reserves better reflect this expected remaining useful life. Accordingly the Company has concluded that it is appropriate to use proved reserves as a basis for the specific depletion calculation for the Kambuna field asset with effect from 1 July 2011. RPS Energy estimates that at 31 December 2011 the gross Proved Reserves of the field are 11.1 bcf of sales gas and 0.6 mm bbl of condensate, a total of 2.9 mmoeb.

The performance of the field will continue to be monitored throughout 2012 as further production information becomes available.

**North Sumatra: East Seruway PSC**

Serica disposed of its 100% interest in the East Seruway Production Sharing Contract ("PSC") offshore North Sumatra, to Kris Energy on 11 October 2011 and no longer has an interest in this block. The sale took effect from 1 September 2011.

**East Kalimantan: Kutai PSC**

Serica was the operator of the Kutai PSC and held a 30% interest. The Company disposed of its interest in the Kutai PSC to Kris Energy on 11 October 2011 and no longer has an interest in this block. The sale took effect from 1 September 2011.

## FINANCIAL REVIEW

### Results of Operations

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

The financial results of the Indonesian business disposal group that was sold in October 2011 are disclosed as discontinued operations and separate from the results of the retained business segments. The financial results of the Kambuna field interest had been disclosed in the Q2 2011 and Q3 2011 reports to shareholders as part of discontinued operations. The directors consider that as at 31 December 2011, whilst still available for sale, this operation no longer meets the IFRS 5 criteria to recognise it as an asset held for sale and therefore include as 'discontinued'. The annual financial results of the Kambuna field are therefore now disclosed within continuing operations together with the results of the retained core business segments.

<b>Continuing operations</b>	<b>2011</b>	Restated *
	<b>US\$000</b>	<i>2010</i>
		<i>US\$000</i>
Sales revenue	27,111	31,302
Cost of sales	(25,648)	(18,758)
<b>GROSS PROFIT</b>	<b>1,463</b>	<b>12,544</b>
<b>Expenses:</b>		
Impairment of fixed assets and goodwill	(2,314)	(11,797)
Pre-licence costs	(1,507)	(1,858)
E&E asset and other write offs	(355)	(4,091)
Administrative expenses	(6,011)	(6,570)
Foreign exchange (loss)/gain	(46)	60
Share-based payments	(844)	(1,117)
Depreciation	(348)	(132)
Operating loss before net finance revenue and tax	(9,962)	(12,961)
Finance revenue	15	57
Finance costs	(1,394)	(4,083)
<b>LOSS BEFORE TAXATION</b>	<b>(11,341)</b>	<b>(16,987)</b>
Taxation charge for the year	(3,149)	(979)
<b>LOSS FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>(14,490)</b>	<b>(17,966)</b>
<b>Discontinued operations</b>		
Loss for the year from discontinued operations	(5,880)	(26,251)
<b>LOSS FOR THE YEAR</b>	<b>(20,370)</b>	<b>(44,217)</b>
<b>Loss per ordinary share – EPS</b>		
Basic and diluted EPS on loss for the year from continuing operations (US\$)	(0.08)	(0.10)
Basic and diluted EPS on loss for the year (US\$)	(0.12)	(0.25)

\* Restated for discontinued operations

## Continuing operations

Serica generated a gross profit of US\$1.5 million for the year ended 31 December 2011 (2010: US\$12.5 million) from its retained 25% interest in the Kambuna field.

### Sales revenues

Serica currently generates all its sales revenue from the Kambuna field in Indonesia. Revenue is recognised on an entitlement basis for the Company's net working field interest. Entitlement revenues are higher in those periods where the full capped amount of cost recovery entitlement is eligible to be claimed out of gross revenue. In the Q2, Q3 and Q4 2011 periods, the cycle of eligible cost recovery was such that the full capped amount of cost recovery could not be claimed by the contractors, therefore giving lower contractor entitlement revenues and an increased government share of gross revenue. This has reduced Serica's reported entitlement revenues as a proportion of gross sales volumes in Q2, Q3 and Q4 2011 compared to earlier periods. Unclaimed cost recovery amounts are carried forward to future periods.

In 2011, gross Kambuna field gas production averaged 35 mmscf (2010: 31 mmscf) per day together with average condensate production of 2,363 barrels per day (2010: 2,685 bpd). Field commissioning work was completed in Q4 2010. The 2011 gas production was sold at prices averaging US\$6.16 per Mscf (2010 US\$5.88 per Mscf) and generated US\$15.1 million (2010 US\$15.3 million) of revenue net to Serica. Condensate production is stored and sold when lifted at a price referenced to the Indonesia Attaka official monthly crude oil price. Liftings in the year earned US\$12.0 million (2010 US\$16.0 million) of revenue net to Serica at an average price of US\$115.8 per barrel (2010 US\$80.8 per barrel).

### Cost of sales and depletion charges

Cost of sales for 2011 were driven by production from the Kambuna field and totalled US\$25.6 million (2010 US\$18.8 million). The charge comprised direct operating costs of US\$7.7 million (2010 US\$7.6 million), non cash depletion of US\$17.7 million (2010 US\$11.5 million) and a decrease in condensate inventory of US\$0.2 million (2010 US\$0.3 million increase). The direct operating costs are broadly in line with field production but the depletion charges per boe increased significantly for Q4 2010 and the first two quarters in 2011 following the Kambuna field reserves downgrade previously announced in the 2010 Annual Report. With effect from 1 July 2011, the Company revised its accounting estimate of entitlement reserves for depletion purposes from 'proved and probable' to 'proved'. The reduction in entitlement reserve base generated further increases in the depletion charge per boe for the second half of 2011.

The Company generated a loss before tax from continuing operations of US\$11.3 million for 2011 compared to a loss before tax of US\$17.0 million for 2010.

The 2011 US\$2.3 million (2010 US\$11.8 million) pre-tax impairment related to the Kambuna field and was recorded against oil and gas property, plant and equipment.

Pre-licence costs included direct costs and allocated general administrative costs incurred on oil and gas activities prior to the award of licences, concessions or exploration rights. The expense of US\$1.5 million for 2011 was lower than the 2010 charge of US\$1.9 million. Significant work was performed in both years, in 2010 mainly on the 26th Licensing Round in the UK and in 2011 in Namibia and Ireland. During 2011 the Company was awarded interests in Blocks 210/19a and 210/20a in the UK Northern North Sea, Block 110/8b in the East Irish Sea, four blocks in the Southern North Sea, a further six blocks in the Rockall Basin in Ireland, and four large blocks and part blocks in the Luderitz Basin in Namibia.

Asset write-offs in 2011 of US\$0.4 million (2010 of US\$4.1 million) included minor working capital amounts and costs from relinquished licences. The 2010 asset write off of US\$4.1 million was primarily attributed to the Oates block (US\$3.5 million).

Administrative expenses of US\$6.0 million for 2011 decreased from US\$6.6 million for 2010. The Company has worked to reduce overhead during 2011 and expects these savings to give further benefit in 2012.

The impact of foreign exchange was not significant in 2011 or 2010.

Share-based payment costs of US\$0.8 million reflected share options granted and compare with US\$1.1 million for 2010.

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

Finance revenue for 2011, comprising interest income of US\$0.02 million, compares with US\$0.06 million for 2010. Bank deposit interest income has been negligible in both periods.

## FINANCIAL REVIEW CONTINUED

Finance costs consist of interest payable, arrangement costs spread over the term of the bank loan facility and other fees. The significant reduction in expense from US\$4.1 million in 2010 to US\$1.4 million arose following the full repayment of outstanding liabilities in February 2011. All facility arrangement costs have been amortised and no interest is currently payable. The only ongoing cost related to other minor fees.

The taxation charge of US\$3.1 million (2010 US\$1.0 million) arose from Indonesian operations, and comprised a current tax charge of US\$4.4 million (2010: US\$1.1 million) and a deferred tax credit of US\$1.3 million (2010: US\$0.1 million). Current tax is charged on the profit oil or gas element of sales revenue rather than the cost recovery component. The significant increase in current tax charge of 2011 compared to 2010 is due to the higher proportion of profit gas or oil as part of recorded field revenue in this cycle of the field life.

The net loss per share from continuing operations of US\$0.08 for 2011 compares to a net loss per share of US\$0.10 for 2010.

### Discontinued operations

The results of discontinued operations below are those generated from Serica's South East Asia operations which were disposed of in October 2011.

At 30 June 2011, as a result of the Board's strategic decision to exit Indonesia, the Group's interests in the region were classified as a disposal group held for sale and therefore included as discontinued operations. In October 2011, the Group completed the disposal of its operated exploration portfolio; however the Group's 25% non-operated interest in Kambuna has not yet been sold. The directors concluded that as at 31 December 2011, whilst still available for sale, Serica's interest in Kambuna no longer meets the IFRS 5 criteria to be classified as an asset held for sale, because an active marketing program is no longer in place, and therefore the results of this part of the disposal group are disclosed within continuing operations together with the results of the retained core business segments.

Discontinued operations	2011 US\$000	2010 US\$000
Sales revenue	–	–
Cost of sales	–	–
<b>GROSS PROFIT</b>	<b>–</b>	<b>–</b>
<b>Expenses:</b>		
Pre-licence costs	(292)	(66)
E&E asset and other write-offs	(788)	(25,395)
Administrative expenses	(621)	(783)
Foreign exchange loss	(3)	(5)
Share-based payments	(203)	(114)
Depreciation	–	(5)
Operating loss before net finance revenue and tax	(1,907)	(26,368)
Other costs	(363)	–
Loss recognised on remeasurement to fair value	(3,720)	–
Profit on disposal	110	–
Finance revenue	–	117
<b>LOSS BEFORE TAXATION</b>	<b>(5,880)</b>	<b>(26,251)</b>
Taxation charge for the year	–	–
<b>LOSS FOR THE YEAR</b>	<b>(5,880)</b>	<b>(26,251)</b>

Asset write offs in 2011 and 2010 were in respect of E&E and other expenses from the Kutai PSC in Indonesia, which was sold in October 2011. 2011 expenditure on the asset was expensed as incurred.

In October 2011 the Company completed the disposal of its portfolio of operated exploration interests in South East Asia to Kris Energy Limited for base consideration of US\$3.4 million and a further contingent payment of US\$1.0 million received in December 2011. The transaction generated a loss of US\$3.6 million (chiefly comprising a loss recognised on re-measurement to fair value of US\$3.7 million as at 30 September 2011) after deducting booked asset costs and other transaction costs and fees.

## Summary of Quarterly Results

Quarter ended:	31 Mar US\$000	30 Jun US\$000	30 Sep US\$000	31 Dec US\$000
<b>2011</b>				
Sales revenue	8,577	6,613	6,579	5,342
(Loss)/profit for the quarter	(2,465)	(11,342)	(2,462)	(4,101)
Basic earnings per share US\$	(0.01)	(0.06)	(0.01)	(0.02)
Diluted earnings per share US\$	(0.01)	(0.06)	(0.01)	(0.02)
<b>2010</b>				
Sales revenue	5,334	6,537	10,018	9,413
(Loss)/profit for the quarter	(2,740)	(1,646)	281	(40,112)
Basic earnings per share US\$	(0.02)	(0.01)	0.002	(0.22)
Diluted earnings per share US\$	(0.02)	(0.01)	0.002	(0.22)

The second quarter 2011 loss includes a charge of US\$8.7 million recognised on the re-measurement to fair value of the Indonesian disposal group as at 30 June 2011.

The fourth quarter 2010 loss includes asset write offs of US\$29.5 million attributed to the Kutai and Oates E&E assets and an impairment charge of US\$11.8 million against the Kambuna production asset.

## 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 2011 US\$000	31 December 2010 US\$000
<b>Current assets:</b>		
Inventories	1,572	2,748
Trade and other receivables	9,338	14,669
Financial assets	647	–
Cash and cash equivalents	19,946	30,002
<b>TOTAL CURRENT ASSETS</b>	<b>31,503</b>	<b>47,419</b>
<b>Less Current liabilities:</b>		
Trade and other payables	(10,267)	(13,574)
Income tax payable	(302)	(1,466)
Financial liabilities	–	(11,671)
<b>TOTAL CURRENT LIABILITIES</b>	<b>(10,569)</b>	<b>(26,711)</b>
<b>NET CURRENT ASSETS</b>	<b>20,934</b>	<b>20,708</b>

At 31 December 2011, the Company had net current assets of US\$20.9 million which comprised current assets of US\$31.5 million less current liabilities of US\$10.6 million, giving an overall increase in working capital of US\$0.2 million in the year.

Inventories decreased from US\$2.7 million to US\$1.6 million over the year, largely due to the disposal of certain equipment.

Trade and other receivables at 31 December 2011 totalled US\$9.3 million, which included US\$3.7 million of trade debtors from gas and condensate sales in November and December. The decrease in amounts receivable from the 2010 balance of US\$14.7 million is largely caused by the disposal of balances attributed to the Indonesian exploration operations. Other items included advance payments on ongoing operations, recoverable amounts from partners in joint venture operations in the UK and Indonesia, sundry UK and Indonesian working capital balances, and prepayments.

Financial assets at 31 December 2011 represented US\$0.6 million of restricted cash deposits.



## FINANCIAL REVIEW CONTINUED

Cash and cash equivalents decreased from US\$30.0 million to US\$20.0 million in the year. During 2011 the Company generated US\$27.1 million of revenues from the Kambuna field but also repaid US\$11.8 million to reduce its debt liability to US\$nil. Cash outflows were incurred on Kambuna field operating costs, Kambuna cash tax payments of US\$5.7 million in respect of current and prior periods, and outstanding liabilities from the 2010 Kutai exploration drilling programme in Indonesia. Other costs included seismic work across the portfolio in Ireland, Columbus Field Development Plan expense together with new venture costs, ongoing administrative costs and corporate activity.

Trade and other payables of US\$10.3 million at 31 December 2011 chiefly include US\$3.4 million of liabilities arising on the signature of the Namibian licences in December, and trade creditors and accruals from UK & Kambuna operations. Other items include sundry creditors and accruals from the ongoing exploration programmes, payables for administrative expenses and other corporate costs.

The current tax creditor of US\$0.3 million arises in respect of the Kambuna field in Indonesia. First cash tax payments from Kambuna field revenues were made in April 2011.

Financial liabilities comprised drawings under the senior debt facility and were disclosed net of the unamortised portion of allocated issue costs. The balance was classified as short-term as at 31 December 2010 and was fully repaid in February 2011.

### Long-Term Assets and Liabilities

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

	31 December 2011 US\$000	<i>31 December 2010 US\$000</i>
Exploration and evaluation assets	69,083	68,604
Property, plant and equipment	18,719	37,546
Financial assets	394	1,431
Long-term other receivables	3,613	4,748
Provisions	(2,029)	(1,706)
Deferred income tax liabilities	–	(1,339)

During 2011, total investments in petroleum and natural gas properties represented by exploration and evaluation assets ("E&E assets") increased from US\$68.6 million to US\$69.1 million. These amounts exclude the Kambuna development costs which are classified as property, plant and equipment.

The net US\$0.5 million increase consists of US\$7.4 million of additions (US\$6.3 million on continuing operations) less the US\$6.9 million of asset book costs from the East Seruway PSC which was sold in October 2011.

The US\$6.3 million of additions on continuing operations were incurred on the following assets:

In Africa, US\$3.4 million was incurred upon the signature of the Luderitz basin licence interests in Namibia and US\$0.6 million was incurred on ongoing work on the Morocco interests.

In the UK & Ireland, US\$0.8 million was incurred on the Columbus FDP (including FEED work on the BLP), US\$0.8 million on a site survey and other exploration work in Ireland and US\$0.7 million on other UK exploration work and G&A.

Property, plant and equipment chiefly comprise the net book amount of the capital expenditure on the Company's interest in the Kambuna development. During 2011, the Company's investment decreased from US\$36.7 million to US\$18.2 million. This US\$18.5 million decrease comprised depletion charges of US\$17.7 million arising from the production of gas and condensate, the Q4 2011 impairment of US\$2.3 million, partially offset by US\$1.5 million of capex additions in the year. The property, plant and equipment also included balances of US\$0.5 million (2010: US\$0.8 million) for office fixtures and fittings and computer equipment.

Financial assets at 31 December 2011 represented US\$0.4 million of restricted cash deposits.

Long-term other receivables of US\$3.6 million are represented by value added tax ("VAT") on Indonesian capital spend which is expected to be recovered from the Indonesian authorities.

Provisions of US\$2.0 million at 31 December 2011 are in respect of Kambuna field decommissioning payments in Indonesia.

The deferred income tax liability as at 31 December 2010 arose in respect of the Company's retained Kambuna asset interest in Indonesia.

### Shareholders' Equity

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

	<b>31 December 2011 US\$000</b>	<i>31 December 2010 US\$000</i>
Total share capital	207,702	207,657
Other reserves	19,475	18,428
Accumulated deficit	(116,463)	(96,093)

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

Other reserves mainly include amounts in respect of cumulative share-based payment charges. The increase from US\$18.4 million to US\$19.5 million reflects proportional charges in 2011 for options issued in 2011 and prior years.

### Asset values and Impairment

At 31 December 2011 Serica's market capitalisation stood at US\$49.8 million (£32.2 million), based upon a share price of £0.1825, which was exceeded by the net asset value at that date of US\$110.7 million. By 28 March 2012 the Company's market capitalisation had increased to US\$100.8 million. Management conducted a thorough review of the carrying value of its assets and determined that no further write-downs were required beyond those already disclosed above.

### Capital Resources

#### Available financing resources and debt facility

Serica's prime focus has been to deliver value through exploration success. To-date this has given rise to the Kambuna gas field development in Indonesia and the Columbus gas field in the UK North Sea, for which development plans are being formulated.

Typically exploration activities are equity financed whilst field development costs are principally debt financed. In the current business environment, access to new equity and debt remains uncertain. Consequently, the Company has given priority to the careful management of existing financial resources.

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

Following the debt repayments in 2010, management reduced its debt facility to US\$50 million total capacity so as to restrict ongoing facility costs. The ability to draw under the facility for development is determined both by the achievement of milestones on the relevant project and also by the availability calculated under a projection model. The outstanding amount under the Company's debt facility was fully repaid in February 2011.

At 31 December 2011, the Company held cash and cash equivalents of US\$20.0 million and US\$1.0 million of short and long-term restricted cash in continuing operations. Overall, the current cash balances held, the crystallisation of value from Indonesia either through the revenues from a retained 25% Kambuna interest or a disposal, and the control that the Company can exert over the timing and cost of its exploration programmes both through operatorship and through farm-outs leave it well placed to manage its commitments.

## FINANCIAL REVIEW CONTINUED

### Summary of contractual obligations

The following table summarises the Company's contractual obligations as at 31 December 2011;

Contractual Obligations	Total US\$000	<1 year US\$000	1-3 years US\$000	>3 years US\$000
Long term debt	–	–	–	–
Operating leases	678	538	140	–
Other long term obligations	1,805	500	870	435
<b>Total contractual obligations</b>	<b>2,483</b>	<b>1,038</b>	<b>1,010</b>	<b>435</b>

All bank debt was repaid in February 2011.

Other long term obligations relate to decommissioning payments in Indonesia.

### Lease commitments

At 31 December 2011, Serica had no capital lease obligations. At that date, the Company had commitments to future minimum payments under operating leases in respect of rental office premises and office equipment for each of the following period/years as follows:

	US\$000
31 December 2012	538
31 December 2013	140

### Capital expenditure commitments, obligations and plans

Following the disposal in October 2011 of the Company's interests in the Kutai PSC and East Seruway PSC in Indonesia, the Company has no further obligations in respect of these properties.

The Company's share of expected outstanding capital costs on the Kambuna project were approximately a net US\$1.0 million, and are in respect of a condensate pipeline and the installation of a permanent compressor.

In addition to the above, the Company also typically 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.

The most significant obligations are in respect of the Company's recently awarded Namibian licence. Under the terms of the licence the Company has a minimum obligation expenditure on exploration work of US\$15.0 million covering the entire initial four year period of the licence, ending in December 2015. Following the farm-out transaction with BP noted in the operations review, the Company's work programme obligation will be carried by a third party.

Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK and Ireland.

Following the finalisation of the amalgamation agreement to combine the Central North Sea Blocks 15/21g and 15/21a in January 2012, the venture partners are now committed to drill an appraisal well which is expected to take place in 2H 2012. Serica's estimated 30% share of costs is approximately US\$7.8 million.

### 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 2011 financial statements. International Financial Reporting Standards have been adopted. The costs of exploring for and developing petroleum and natural gas reserves are capitalised. The capitalisation and any write off of E&E assets, or depletion of producing assets, necessarily involve certain judgments with regard to whether the asset will ultimately prove to be recoverable. Key sources of estimation uncertainty that impact the Company relate to assessment of commercial reserves and the impairment of the Company's assets. Oil and gas properties are

subject to periodic review for impairment, whilst goodwill is reviewed at least annually. Impairment considerations necessarily involve certain judgements as to whether E&E assets will lead to commercial discoveries and whether future field revenues will be sufficient to cover capitalised costs. Recoverable amounts can be determined based upon risked potential, or where relevant, discovered oil and gas reserves. In each case, recoverable amount calculations are based upon estimations and management assumptions about future outcomes, product prices and performance. Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment charge is required.

### Financial Instruments

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

Serica has exposure to interest rate fluctuations on its cash deposits and its bank loans; given the level of expenditure plans over 2012/13 this is managed in the short-term through selecting treasury deposit periods of one to three months. Treasury counterparty credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.

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

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

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

### Share Options

As at 31 December 2011, the following director and employee share options were outstanding:

Expiry Date	Amount	Exercise cost Cdn\$
December 2014	200,000	200,000
January 2015	600,000	600,000
June 2015	1,100,000	1,980,000
		Exercise cost £
August 2012	1,200,000	1,182,000
October 2013	750,000	300,000
January 2014	371,000	118,720
November 2015	298,000	289,060
January 2016	765,000	791,775
June 2016	270,000	259,200
November 2016	120,000	134,400
January 2017	393,000	400,860
May 2017	210,000	218,400
March 2018	1,020,000	765,000
March 2018	850,000	697,000
January 2020	3,486,000	2,370,480
April 2021	450,000	141,188

## FINANCIAL REVIEW CONTINUED

In January 2011, 90,000 share options were exercised by employees other than directors at a price of £0.32.

In April 2011, 200,000 share options were granted to an executive director with an exercise cost of £0.31375 and an expiry date of 4 April 2021. The exercise of the options is subject to certain performance criteria as set out in the Directors' Report. Also in April 2011, 250,000 share options were granted to certain employees other than directors with an exercise cost of £0.31375 and an expiry date of 4 April 2021.

In January 2012, 859,690 share options were granted to two executive directors and 1,285,270 share options were granted to certain employees other than directors with an exercise cost of £0.21375 and an expiry date of 10 January 2022.

### Outstanding Share Capital

As at 28 March 2012, the Company had 176,660,311 ordinary shares issued and outstanding.

### Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the periods in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. All control systems by their nature have inherent limitations and, therefore, the Company's DC&P are believed to provide reasonable, but not absolute, assurance that the objectives of the control systems are met.

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's DC&P and ICFR as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as at December 31, 2011, the Company's DC&P and ICFR are effective. There were no changes in the Company's ICFR during the period beginning on October 1, 2011 and ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

### Business Risk and Uncertainties

Serica, like all companies in the oil and gas industry, operates in an environment subject to inherent risks and uncertainties. The Board regularly considers the principal risks to which the company is exposed and monitors any agreed mitigating actions. The overall strategy for the protection of shareholder value against these risks is to retain a broad portfolio of assets with varied risk/reward profiles, to apply prudent industry practice in all operations, to carry insurance where available and cost effective, and to retain adequate working capital.

The principal risks currently recognised and the mitigating actions taken by the management are as follows:

**Investment Returns:** Management seeks to raise funds and then to generate shareholder returns through investment in a portfolio of exploration acreage leading to the drilling of wells and discovery of commercial reserves. Delivery of this business model carries a number of key risks.

Risk	Mitigation
Market support may be eroded obstructing fundraising and lowering the share price	<ul style="list-style-type: none"><li>• Management regularly communicates its strategy to shareholders</li><li>• Focus is placed on building an asset portfolio capable of delivering regular news flow and offering continuing prospectivity</li></ul>
General market conditions may fluctuate hindering delivery of the company's business plan	<ul style="list-style-type: none"><li>• Management aims to retain adequate working capital to ride out downturns should they arise</li></ul>
Management's decisions on capital allocation may not deliver the expected successful outcomes	<ul style="list-style-type: none"><li>• Rigorous analysis is conducted of all investment proposals</li><li>• Operations are spread over a range of areas and risk profiles</li></ul>
Each asset carries its own risk profile and no outcome can be certain	<ul style="list-style-type: none"><li>• Management aims to avoid over-exposure to individual assets and to identify the associated risks objectively</li></ul>

**Operations:** Operations may not go according to plan leading to damage, pollution, cost overruns and poor outcomes.

Risk	Mitigation
Individual wells may not deliver recoverable oil and gas reserves	<ul style="list-style-type: none"> <li>• Thorough pre-drill evaluations are conducted to identify the risk/reward balance</li> <li>• Exposure is selectively mitigated through farm-out</li> </ul>
Wells may blow out or equipment may fail causing environmental damage and delays	<ul style="list-style-type: none"> <li>• The Group retains fully trained and experienced personnel</li> <li>• The planning process involves risk identification and establishment of mitigation measures</li> <li>• Emphasis is placed on engaging experienced contractors</li> <li>• Appropriate insurances are retained</li> </ul>
Production may be interrupted generating significant revenue loss	<ul style="list-style-type: none"> <li>• Serica's only producing field, Kambuna, is in the later stages of production and insurance is not considered cost-effective</li> </ul>
Operations may take far longer or cost more than expected	<ul style="list-style-type: none"> <li>• Management applies rigorous budget control</li> <li>• Adequate working capital is retained to cover reasonable eventualities</li> </ul>
Resource estimates may be misleading curtailing actual production and reducing reserves estimates	<ul style="list-style-type: none"> <li>• The Group deploys qualified personnel</li> <li>• Ongoing performance is monitored</li> <li>• Regular third-party reports are commissioned</li> </ul>

**Personnel:** The company relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies

Risk	Mitigation
Key personnel may be lost to other companies	<ul style="list-style-type: none"> <li>• The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive</li> </ul>
Personal safety may be at risk in demanding operating environments, typically offshore	<ul style="list-style-type: none"> <li>• A culture of safety is encouraged throughout the organisation</li> <li>• Responsible personnel are designated at all appropriate levels</li> <li>• The Group maintains up-to-date emergency response resources and procedures</li> <li>• Insurance cover is carried in accordance with industry best practice</li> </ul>
Staff and representatives may find themselves exposed to bribery and corrupt practices	<ul style="list-style-type: none"> <li>• Company policies and procedures are communicated to personnel regularly</li> <li>• Management reviews all significant contracts and relationships with agents and governments</li> </ul>

**Commercial environment:** World and regional markets continue to be volatile with fluctuations and access issues that might hinder the company's business success

Risk	Mitigation
Volatile commodity prices mean that the company cannot be certain of the future sales value of its products	<ul style="list-style-type: none"> <li>• Kambuna gas is sold under long-term contracts and similar arrangements will be considered for Columbus production</li> <li>• Such contracts can be supplemented by price hedging although none is currently in place for Kambuna condensate</li> <li>• Budget planning considers a range of commodity pricing</li> </ul>
The company may not be able to get access, at reasonable cost, to infrastructure and product markets when required Credit to support field development programmes may not be available at reasonable cost	<ul style="list-style-type: none"> <li>• A range of different off-take options have been considered for Columbus and field partners are currently in advanced negotiation</li> <li>• Serica's existing facility was designed to fund part of Columbus capital costs</li> <li>• Funding requirements for Kambuna were significantly mitigated through part disposal</li> </ul>
Fiscal regimes may vary, increasing effective tax rates and reducing the expected value of reserves	<ul style="list-style-type: none"> <li>• Operations are currently spread over a range of different fiscal regimes in Indonesia, Western Europe and Africa</li> <li>• Before committing to a significant investment the likelihood of fiscal term changes is considered when evaluating the risk/reward balance</li> </ul>

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

## **FINANCIAL REVIEW** CONTINUED

### **Key Performance Indicators ("KPIs")**

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

### **Nature and Continuance of Operations**

The principal activity of the Company is to identify, acquire and subsequently exploit oil and gas reserves. Its activities are located in the UK, Ireland, Namibia and Morocco, together with a currently retained interest in the Kambuna Field in Indonesia.

The Company's financial statements have been prepared with the assumption that the Company will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. During the year ended 31 December 2011 the Company generated a loss of US\$14.5 million from continuing operations. At 31 December 2011 the Company had US\$20.0 million of net cash.

The Company intends to utilise its existing cash balances and future operating cash inflows to fund the immediate needs of its investment programme and ongoing operations. Further details of the Company's financial resources and debt facility are given above in the Financial Review in this MD&A.

### **Additional Information**

Additional information relating to Serica, including the Company's annual information form, can be found on the Company's website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com)

### **Approved on Behalf of the Board**

**Antony Craven Walker**  
Chief Executive Officer

**Christopher Hearne**  
Finance Director

29 March 2012

### **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.

## **CONSOLIDATED FINANCIAL STATEMENTS OF SERICA ENERGY PLC**

YEAR ENDED 31 DECEMBER 2011

### **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 2011.

### **Principal Activities**

The principal activity of the Company and its subsidiary undertakings (the "Group") is to identify, acquire, explore and subsequently exploit oil and gas reserves. Its current activities are located in the United Kingdom, Ireland, Namibia, Morocco and Indonesia.

### **Business Review and Future Developments**

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

### **Results and Dividends**

The loss for the year was US\$20,370,000 (2010: loss US\$44,217,000).

The Directors do not recommend the payment of a dividend (2010: US\$nil).

### **Financial Instruments**

The Group's financial risk management objectives and policies are discussed in the Financial Instruments section of the Management's Discussion and Analysis and in note 26.

### **Events Since Balance Sheet Date**

Events since the balance sheet date are included in note 33.

### **Directors and their Interests**

The following Directors have held office in the Company since 1 January 2011:

Antony Craven Walker  
Paul Ellis (retired 10 April 2011)  
Christopher Hearne  
Peter Sadler  
Neil Pike  
Ian Vann  
Steven Theede  
Jonathan Cartwright



## CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 <sup>(1)</sup>	Ordinary	5,970,236	5,704,473
Christopher Hearne <sup>(2)</sup>	Ordinary	765,556	737,829
Peter Sadler <sup>(3)</sup>	Ordinary	157,096	79,369
Neil Pike <sup>(4)</sup>	Ordinary	405,000	405,000
Ian Vann	Ordinary	133,935	133,935
Steven Theede	Ordinary	749,485	749,485
Jonathan Cartwright	Ordinary	20,000	20,000

1. 3,513,349 ordinary shares are held by Antony Craven Walker, 1,548,003 ordinary shares are held by Christine Elizabeth Walker and 908,884 by Rathbones (pension fund).

2. In the period to 27 March 2012, Christopher Hearne acquired a further 4,455 ordinary shares in the Company increasing his interest to 770,011 ordinary shares.

3. In the period to 27 March 2012, Peter Sadler acquired a further 4,455 shares increasing his interest to 161,551 ordinary shares.

4. 155,000 ordinary shares are held by Romayne Pike and 150,000 ordinary shares by Luska Limited.

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

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

The Directors are interested in share options held by them pursuant to the terms of the Serica Energy Corporation option plan (a summary of which is set out in note 29) as follows:

	1/1/11	Granted	Expired	31/12/11	Exercise Price Cdn\$	Date of grant	Expiry date
C Hearne	600,000	–	–	600,000	1.00	17/01/05	16/01/15
	100,000	–	–	100,000	1.80	15/06/05	14/06/15

The options above have fully vested.

The following Directors are also interested in share options held by them pursuant to the terms of the Serica Energy plc Share Option Plan 2005 ("Serica 2005 Option Plan") (a summary of which is set out in note 29) as follows:

	1/1/11	Granted	Exercised	31/12/11	Exercise Price £	Date of grant	Expiry date
C Hearne	103,000	–	–	103,000	0.97	23/11/05	22/11/15
	7,000	–	–	7,000	0.97	23/11/05	22/11/15
	350,000	–	–	350,000	0.82	31/03/08	30/03/18
	675,000	–	–	675,000	0.68	11/01/10	10/01/20
	–	200,000	–	200,000	0.313	05/04/11	04/04/21
P Sadler	750,000	–	–	750,000	0.40	28/10/08	27/10/13
	750,000	–	–	750,000	0.68	11/01/10	10/01/20
A Craven Walker	300,000	–	–	300,000	0.985	10/08/07	10/08/12
N Pike	300,000	–	–	300,000	0.985	10/08/07	10/08/12
I Vann	300,000	–	–	300,000	0.985	10/08/07	10/08/12
S Theede	300,000	–	–	300,000	0.985	10/08/07	10/08/12

Options granted prior to December 2009 vest as to one third on each of the first, second and third anniversaries of grant in line with the practice for companies listed in Toronto which applied at the date of grant. Options awarded since December 2009 have a three year vesting period.

Under the Serica 2005 Option Plan, when awarding options to directors, the Remuneration Committee is required to set Performance Conditions, in addition to the vesting provisions, before vesting can take place. In summary the Performance Conditions are as follows:

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

In respect of the options granted in August 2007, directors may only exercise those options on condition that the Serica share price on a 30 day moving average basis prior to 10 August 2012 has reached at least 200p. The target for the final year of exercise was not set due to an omission at the time of grant and has been set by extrapolating the prior year target.

In respect of the options granted in October 2008, the director may only exercise those options on condition that certain operational targets are met. These options also have an unchanged 5 year exercise period. To date the first tranche of these options have vested following satisfaction of the relevant performance condition.

In respect of the options granted in January 2010, the vesting of the options is subject to Serica share price Performance Conditions measured against a selected peer group consisting of Antrim Energy Inc., Aurelian Oil & Gas plc, Bowleven plc, Falkland Oil & Gas Limited, Faroe Petroleum plc, Gulfsands Petroleum plc, Ithaca Energy Inc, Northern Petroleum plc, Petroceltic International plc, Providence Resources plc, Regal Petroleum plc and Valiant Petroleum plc. The Performance Conditions are as follows:

- 40% of options to vest in the event that the Company outperforms the 25th percentile of peer group performance over any 1 year period
- 80% of options to vest in the event that the Company outperforms the 50th percentile of peer group performance over any 1 year period
- 100% of options to vest in the event that the Company outperforms the 75th percentile of peer group performance over any 1 year period

The peer group of comparator companies is subject to change by the Remuneration Committee should the Remuneration Committee feel that the group no longer comprises a meaningful peer group comparator as the result, for example, of a significant change in the Company or one or more of the peer group companies ceasing to be quoted on a recognised exchange. Regal Petroleum plc (Regal) was replaced by Dominion Petroleum plc (Dominion) following Regal's acquisition by Energiees Management Limited and the Remuneration Committee is considering a replacement for Dominion following its acquisition by Ophir Energy plc. The Remuneration Committee has reviewed the share price performance of the peer group since January 2010 and as at 31 December 2011, the minimum performance targets have not been met by the Company and accordingly none of the options had vested at the year end.

In respect of the options granted in April 2011, the director may only exercise those options on condition that either of the following Performance Conditions is satisfied:

- Achievement of full year post-tax, audited profit for the Serica Energy group of companies; and/or
- Successful achievement of a merger or acquisition or other similar corporate event approved by the Board of Directors of the Company which, in the view of the Remuneration Committee, would create greater diversity and scope for the Company.

## CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### Major Interest in Shares

The Company has been notified of the following interests representing 3% or more of the voting rights in the Company as at 28 March 2012:

	No of shares	Percentage holding
Caledonia Investments	25,501,736	14.4
Fidelity International	17,607,512	10.0
The Canadian Depository for Securities Ltd ("CDS")	9,504,615	5.4
AXA Financial	8,529,277	4.8
Cenkos	8,468,654	4.8
The Depository Trust Company ("DTC")	7,991,500	4.5
Sector Investment Managers Ltd	6,000,000	3.4
Mr A Craven Walker	5,970,236	3.4
Sprott Asset Management LP	5,862,950	3.3

CDS in Canada and DTC (using the nominee Cede & Co) in the USA are registered holders of the above ordinary shares shown against their names and hold such shares as depository and nominee for numerous clients who retain the beneficial interests in the ordinary shares held. The Company has not been able to identify with any reasonable certainty the names of persons who are directly or indirectly interested in 3% or more of the issued ordinary shares of the Company and who hold such ordinary shares through the above depositories. 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 2011, the Company had an average of 25 days' purchases owed to trade creditors (2010 - 27 days).

### Auditor

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

### Disclosure of information to auditors

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

### On behalf of the Board

**Christopher Hearne**

Director

29 March 2012

Serica Energy plc

## **CORPORATE GOVERNANCE STATEMENT**

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

The code of practice followed for companies incorporated in the United Kingdom and listed on the premium sector of the Main Market of the London Stock Exchange is set out in the UK Corporate Governance Code (the "UK Code"). It is not compulsory for companies whose shares are traded on the AIM market but the Board applies those principles of the UK Code to the extent that it considers it reasonable and practical to do so given the size and nature of the Company.

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

Further information regarding the Company's corporate governance practices can be found in the Company's management information circular dated 16 May 2011, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

### **The Board and its Committees**

The Board of the Company consists of two Executive Directors, four non-Executive Directors and the Chairman of the Board who has been acting as Interim CEO since the retirement of Paul Ellis in April 2011. At the time of Mr Ellis's retirement, the Board agreed that it was necessary for there to be some continuity in the management of the Company and it was agreed that the Chairman should be appointed as Interim CEO until such time as a suitably qualified successor to fill the CEO position could be identified. The position has been kept under review by the Corporate Governance and Nomination Committee which reports to the Board. During the period that the Chairman is also providing the services as Interim CEO the Board has appointed Neil Pike to fill the position of Senior Independent Director to maintain the appropriate level of balance on the Board. It is considered that the Board is of sufficient size and that the balance of skills and experience is appropriate for a company of Serica's size, stage of development and business. All the non-Executive directors and the Chairman are independent in character and judgement and have the range of experience and calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group.

The Board retains full and effective control over the Company. The Company holds regular Board meetings at which financial, operational and other reports are considered and, where appropriate, voted on. The Board is responsible for the Group's strategy, performance, key financial and compliance issues, approval of any major capital expenditure and the framework of internal controls. The matters reserved for the Board include, amongst others, approval of the Group's long term objectives, policies and budgets, changes relating to the Group's management structure, approval of the Group's annual report and accounts and ensuring maintenance of sound systems of internal control.

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to executive management. The Board is responsible for monitoring the activities of the executive management. The Chairman has the responsibility of ensuring that the Board discharges its responsibilities. In the event of an equality of votes at a meeting of the Board, the Chairman has a second or casting vote.

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

The Board believes that there is an adequate balance between the non-Executive and Executive Directors, both in number and in experience and expertise, to ensure that the Board operates independently of executive management. The need to appoint a Chief Executive Officer is recognised and this is discussed further in the Chairman's Report. There is no formal Board performance appraisal system in place but the Corporate Governance and Nomination Committee considers this as part of its remit.

Individual Directors may engage outside advisors at the expense of the Company upon approval by the Board in appropriate circumstances.

## **CORPORATE GOVERNANCE STATEMENT** CONTINUED

The Board has established a Corporate Governance and Nomination Committee, an Audit Committee, a Reserves Committee, a Remuneration and Compensation Committee and a Health, Safety and Environmental Committee. The terms of reference of the Corporate Governance and Nomination, Audit and Remuneration and Compensation Committees can be found on the Company's website [www.serica-energy.com](http://www.serica-energy.com)

### **Corporate Governance and Nomination Committee**

The Corporate Governance and Nomination Committee is responsible for the Company's observance of the UK Code and the Corporate Governance Guidelines where they apply to the Company, for compliance with the rules of AIM and the TSX and for other corporate governance matters, including compliance with the Company's Share Dealing Code and with AIM and TSX in respect of dealings by directors or employees in the Company's shares. The committee is responsible for monitoring the effectiveness of the Board and its Committees, proposing to the Board new nominees for election as directors to the Board, determining successor plans and for assessing directors on an ongoing basis.

The committee met four times during 2011 and proposes to meet at least three times during the next financial year.

The Corporate Governance and Nomination Committee is comprised of the Chairman and two non-Executive directors all of whom are independent (other than as described in "The Board and its Committees" above). During the year Neil Pike replaced Antony Craven Walker as Chairman of the committee after Mr Craven Walker assumed the role of interim CEO. He remained as a member of the committee and the other member is Jonathan Cartwright.

### **Audit Committee**

The Audit Committee meets at least quarterly and consists of three members, all of whom are non-Executive Directors and independent (other than as described in "The Board and its Committees" above). The committee's purpose is to assist the Board's oversight of the integrity of the financial statements and other financial reporting, the independence and performance of the auditors, the regulation and risk profile of the Group and the review and approval of any related party transactions. The Audit Committee may hold private sessions with management and the external auditor.

The Audit Committee met eight times in 2011 and proposes to meet seven times during the next financial year. The committee is chaired by Neil Pike and its other members are Steven Theede and Jonathan Cartwright.

The responsibilities and operation of the Audit Committee are more particularly set out in the Company's Audit Committee Charter, a copy of which is included as Schedule A to the Company's annual information form for its financial year ended December 31, 2010, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Reserves Committee**

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

### **Remuneration and Compensation Committee**

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

The committee met five times in 2011 and proposes to meet at least three times during the next financial year. In addition, written resolutions of the committee are passed from time to time particularly in relation to routine matters such as the allotment of shares pursuant to share option exercises.

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

#### Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is responsible for matters affecting occupational health, safety and the environment, including the formulation of a health, safety and environmental policy.

The committee met three times in 2011 and proposes to meet at least three times during the next financial year. The committee is composed of the Chief Executive and two non-Executive directors. During the year, Peter Sadler replaced Paul Ellis as Chairman of the committee following Mr Ellis's retirement and Antony Craven Walker stepped down and was replaced by Mitch Flegg (Chief Operating Officer). Ian Vann is the other committee member.

#### Directors' attendance at meetings

The Board generally has one scheduled Board meeting per month over the course of the financial year. Additional meetings are held depending upon opportunities or issues to be dealt with by the Company from time to time. The non-Executive Directors hold informal meetings during the course of the year at which members of management are not in attendance.

The directors' attendance at scheduled Board meetings and Board committees during 2011 is detailed in the table below:

Director	Board	Audit	Remuneration and Compensation	Corporate Governance and Nomination	HSE	Reserves
A Craven Walker (Chairman)	15*	–	4*	4*	1	–
P Ellis (CEO – retired 10 April 2011)	4	–	–	–	–	–
CJ Hearne (CFO)	15	–	–	–	–	–
P Sadler (Business Development Director)	15	–	–	–	2*	1
J Cartwright	15	7	–	4	–	–
N Pike	15	7*	5	4*	–	–
S Theede	15	5	5	–	–	1*
I Vann	14	–	–	–	3	1
<b>Total meetings</b>	<b>15</b>	<b>7</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>1</b>

#### Notes:

1. The Chairman and non-executive directors attended a number of meetings of committees of which they were not members during the course of the year at the invitation of the committee chairman.
2. The Health, Safety and Environmental Committee was restructured during the year following Mr Ellis's retirement on 10th April 2011. Mr Sadler took over as Chairman from Mr Ellis and Mr Craven Walker stepped down from the committee.
3. Mr Pike took over as chair of the Corporate Governance and Nomination Committee from Mr Craven Walker during the year.

\* Chairman

## DIRECTORS' BIOGRAPHIES

**Antony Craven Walker** Chairman and interim Chief Executive Tony Craven Walker started his career with BP and has been a leading figure in the British independent oil industry since the early 1970s. He founded two British independent oil companies, Charterhouse Petroleum, where he held the post of Chief Executive, and Monument Oil and Gas, where he held the post of Chief Executive and later became Chairman. He was also a founder member of BRINDEX (Association of British Independent Oil Exploration Companies). He was appointed Chairman of Serica in 2004 and following the retirement of Paul Ellis in April 2011, is currently acting as interim Chief Executive.

**Christopher Hearne** Finance Director Chris Hearne joined Serica from Intrepid Energy, a leading independent exploration and production company in the North Sea, where he was responsible for corporate finance for eight years. In this capacity, he contributed to the growth of Intrepid Energy from a start-up company to its sale for over US\$1 billion. Prior to joining Serica he worked as an investment banker with Lehman Brothers and Robert Fleming. He was appointed to the Board as Finance Director of Serica in 2005.

**Peter Sadler** Business Development Director Peter Sadler has a career spanning over 33 years in the international exploration and production business with both major and independent oil companies. He was formerly Chief Executive of Indago Petroleum plc, a Middle East based exploration and production company with projects that included the development of an offshore gas condensate field. He was Regional Manager Middle East for Novus Petroleum in Dubai and held senior positions in independent oil companies in Australia and the UK. He was first appointed to the Board as Chief Operating Officer of Serica in 2008, and was subsequently appointed as Business Development Director in April 2011.

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

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

**Steven Theede** Non-Executive Director Steven Theede held senior management positions with Conoco, later ConocoPhillips, and in 2000 was appointed President, Exploration and Production for Europe, Russia and the Caspian region. In 2003 he joined Yukos Oil Company and became its Chief Executive Officer in July 2004, a position he held until August 2006. He was appointed to the Board of Serica in 2007.

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

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

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

Company law requires the directors to prepare financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under United Kingdom company law the directors have elected to prepare the Parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and the profit or loss of the company for that period.

In preparing those Group and Company financial statements the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Group and Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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



## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SERICA ENERGY PLC**

We have audited the financial statements of Serica Energy plc for the year ended 31 December 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement as set out on page 41, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Separate opinion in relation to IFRSs as issued by the IASB**

As explained in Note 1 to the financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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

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

**Ernst & Young LLP**

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

29 March 2012

## GROUP INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

Notes		2011 US\$000	Restated * 2010 US\$000
	<b>Continuing operations</b>		
4	<b>SALES REVENUE</b>	<b>27,111</b>	<b>31,302</b>
5	Cost of sales	(25,648)	(18,758)
	<b>GROSS PROFIT</b>	<b>1,463</b>	<b>12,544</b>
16,17	Impairment of fixed assets and goodwill	(2,314)	(11,797)
	Pre-licence costs	(1,507)	(1,858)
	E&E and other asset write-offs	(355)	(4,091)
	Administrative expenses	(6,011)	(6,570)
	Foreign exchange (loss)/gain	(46)	60
29	Share-based payments	(844)	(1,117)
8	Depreciation	(348)	(132)
	<b>OPERATING LOSS BEFORE NET FINANCE REVENUE AND TAX</b>	<b>(9,962)</b>	<b>(12,961)</b>
11	Finance revenue	15	57
12	Finance costs	(1,394)	(4,083)
	<b>LOSS BEFORE TAXATION</b>	<b>(11,341)</b>	<b>(16,987)</b>
13 a)	Taxation charge for the year	(3,149)	(979)
	<b>Loss for the year from continuing operations</b>	<b>(14,490)</b>	<b>(17,966)</b>
	<b>Discontinued operations</b>		
7	Loss for the year from discontinued operations	(5,880)	(26,251)
	<b>LOSS FOR THE YEAR</b>	<b>(20,370)</b>	<b>(44,217)</b>
	<b>Loss per ordinary share - EPS</b>		
14	Basic and diluted EPS on continuing operations (US\$)	(0.08)	(0.10)
14	Basic and diluted EPS on loss for the year (US\$)	(0.12)	(0.25)

\* Restated for discontinued operations – see note 7

### Group Statement of Comprehensive Income

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

## BALANCE SHEET AS AT 31 DECEMBER

Notes

	Group 2011 US\$000	2010 US\$000	Company 2011 US\$000	2010 US\$000	
<b>Non-current assets</b>					
15	Exploration & evaluation assets	69,083	68,604	–	–
16	Property, plant and equipment	18,719	37,546	–	–
17	Goodwill	–	–	–	–
18	Investments in subsidiaries	–	–	11,830	11,830
19	Financial assets	394	1,431	394	1,431
19	Other receivables	3,613	4,748	–	–
		<b>91,809</b>	<b>112,329</b>	<b>12,224</b>	<b>13,261</b>
<b>Current assets</b>					
20	Inventories	1,572	2,748	–	–
21	Trade and other receivables	9,338	14,669	115,312	123,302
21	Financial assets	647	–	647	–
22	Cash and cash equivalents	19,946	30,002	19,142	26,696
		<b>31,503</b>	<b>47,419</b>	<b>135,101</b>	<b>149,998</b>
	<b>TOTAL ASSETS</b>	<b>123,312</b>	<b>159,748</b>	<b>147,325</b>	<b>163,259</b>
<b>Current liabilities</b>					
23	Trade and other payables	(10,267)	(13,574)	(633)	(939)
	Income taxation payable	(302)	(1,466)	–	–
24	Financial liabilities	–	(11,671)	–	(11,671)
<b>Non-current liabilities</b>					
25	Provisions	(2,029)	(1,706)	–	–
13 d)	Deferred income tax liabilities	–	(1,339)	–	–
	<b>TOTAL LIABILITIES</b>	<b>(12,598)</b>	<b>(29,756)</b>	<b>(633)</b>	<b>(12,610)</b>
	<b>NET ASSETS</b>	<b>110,714</b>	<b>129,992</b>	<b>146,692</b>	<b>150,649</b>
27	Share capital	207,702	207,657	172,430	172,385
18	Merger reserve	–	–	4,322	4,322
	Other reserves	19,475	18,428	19,475	18,428
	Accumulated deficit	(116,463)	(96,093)	(49,535)	(44,486)
	<b>TOTAL EQUITY</b>	<b>110,714</b>	<b>129,992</b>	<b>146,692</b>	<b>150,649</b>

**Approved by the Board on 29 March 2012**

Antony Craven Walker  
Chief Executive Officer

Christopher Hearne  
Finance Director

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

Group	Share capital US\$000	Other reserves US\$000	Accum'd deficit US\$000	Total US\$000
At 1 January 2010	207,633	17,197	(51,876)	172,954
Loss for the year	–	–	(44,217)	(44,217)
Total comprehensive income	–	–	(44,217)	(44,217)
Share-based payments	–	1,231	–	1,231
Proceeds on exercise of options	24	–	–	24
<b>AT 31 DECEMBER 2010</b>	<b>207,657</b>	<b>18,428</b>	<b>(96,093)</b>	<b>129,992</b>
Loss for the year	–	–	(20,370)	(20,370)
Total comprehensive income	–	–	(20,370)	(20,370)
Share-based payments	–	1,047	–	1,047
Proceeds on exercise of options	45	–	–	45
<b>AT 31 DECEMBER 2011</b>	<b>207,702</b>	<b>19,475</b>	<b>(116,463)</b>	<b>110,714</b>

Company	Share capital US\$000	Merger reserve US\$000	Other reserve US\$000	Accum'd deficit US\$000	Total US\$000
At 1 January 2010	172,361	112,174	17,197	(18,349)	283,383
Loss for the year	–	–	–	(133,989)	(133,989)
Total comprehensive income	–	–	–	(133,989)	(133,989)
Share-based payments	–	–	1,231	–	1,231
Proceeds on exercise of options	24	–	–	–	24
Transfers	–	(107,852)	–	107,852	–
<b>AT 31 DECEMBER 2010</b>	<b>172,385</b>	<b>4,322</b>	<b>18,428</b>	<b>(44,486)</b>	<b>150,649</b>
Loss for the year	–	–	–	(5,049)	(5,049)
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(5,049)</b>	<b>(5,049)</b>
Proceeds on exercise of options	45	–	–	–	45
Share-based payments	–	–	1,047	–	1,047
<b>AT 31 DECEMBER 2011</b>	<b>172,430</b>	<b>4,322</b>	<b>19,475</b>	<b>(49,535)</b>	<b>146,692</b>

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Group 2011 US\$000	2010 US\$000	Company 2011 US\$000	2010 US\$000
<b>Operating activities:</b>				
Loss for the year	(20,370)	(44,217)	(5,049)	(133,989)
Adjustments to reconcile loss for the year to net cash flow from operating activities:				
Taxation	3,149	979	–	–
Net finance costs	1,379	3,909	1,339	3,488
Loss on re-measurement to fair value	3,720	–	–	–
Profit on disposal	(110)	–	–	–
Depreciation	348	137	–	–
Depletion and amortisation	17,716	11,479	–	–
Asset write-offs	–	29,486	–	–
Impairment	2,314	11,797	–	126,193
Share-based payments	1,047	1,231	1,047	1,231
Decrease/(increase) in trade and other receivables	5,377	(9,152)	386	104
Decrease in inventories	745	177	–	–
(Decrease)/increase in trade and other payables	(2,171)	4,343	(306)	(546)
Cash generated from operations	13,144	10,169	(2,583)	(3,519)
Taxation paid	(5,653)	–	–	–
<b>NET CASH IN/(OUT)FLOW FROM OPERATIONS</b>	<b>7,491</b>	<b>10,169</b>	<b>(2,583)</b>	<b>(3,519)</b>
<b>Investing activities:</b>				
Interest received	15	765	15	58
Purchase of property, plant and equipment	(1,268)	(5,241)	–	–
Purchase of E&E assets	(7,400)	(30,569)	–	–
Cash inflow from disposals (note 7)	3,672	99,532	–	–
Funding provided to Group subsidiaries	–	–	–	(23,263)
Funds from Group subsidiaries	–	–	7,578	99,532
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(4,981)</b>	<b>64,487</b>	<b>7,593</b>	<b>76,327</b>
<b>Financing activities:</b>				
Finance costs paid	(805)	(2,313)	(805)	(2,313)
Proceeds on exercise of options	45	24	45	24
Repayments of loans and borrowings	(11,800)	(60,700)	(11,800)	(60,700)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(12,560)</b>	<b>(62,989)</b>	<b>(12,560)</b>	<b>(62,989)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(10,050)</b>	<b>11,667</b>	<b>(7,550)</b>	<b>9,819</b>
Effect of exchange rates on cash and cash equivalents	(6)	(77)	(4)	(45)
Cash and cash equivalents at 1 January	30,002	18,412	26,696	16,922
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>19,946</b>	<b>30,002</b>	<b>19,142</b>	<b>26,696</b>

## 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 2011 were authorised for issue by the Board of Directors on 29 March 2012 and the balance sheets were signed on the Board's behalf by Antony Craven Walker 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. Its current activities are located in the United Kingdom, Ireland, Namibia, Morocco and a retained interest in the Kambuna Field in Indonesia. The Company's ordinary shares are traded on AIM and the TSX.

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 2011. The Company's financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Company for the year ended 31 December 2011 and as applied in accordance with the provisions of the Companies Act 2006. The Group's financial statements are also prepared in accordance with IFRS as issued by the IASB. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The deficit dealt with in the financial statements of the parent Company was US\$5,049,000 (2010: US\$133,989,000).

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

### 2. Accounting Policies

#### Basis of Preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2011.

The Group and Company financial statements are presented in US dollars and all values are rounded to the nearest thousand dollars (US\$000) except when otherwise indicated.

#### Going Concern

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above. As at 31 December 2011 the Group had US\$19.9 million of net cash.

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

This is based upon the following factors: operating cash inflows are being generated from the Kambuna field; gas sales contracts for Kambuna are in place at fixed prices and any fluctuations in condensate prices will be largely offset by variations in cost recovery entitlement, and the Company has a record of prudent financial management, including the raising of capital through farm down and asset disposals. The option of further asset sales and farm outs is also open to the Company.

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

## Use of judgement and estimates and key sources of estimation uncertainty

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognised in the financial statements are: the assessment of commercial reserves, the impairment of the Group and Company's assets (including oil & gas development assets and Exploration and Evaluation "E&E" assets), decommissioning provisions, share-based payment costs and the assessment of the disclosure of the Group's disposed Indonesian operations.

### Assessment of commercial reserves

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

### Impairment

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

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

Management is required to assess the carrying value of investments in subsidiaries in the parent company balance sheet for impairment by reference to the recoverable amount. This requires an estimate of amounts recoverable from oil and gas assets within the underlying subsidiaries (see note 18).

### Decommissioning provisions

Management has determined that, based on their understanding of the contractual agreements they are party to in Indonesia, the Company has a constructive obligation to incur future decommissioning costs as at 31 December 2011. However these assumptions involve judgement, which may be subject to change, and therefore the position will be reviewed on an ongoing basis. A change in circumstances may result in a change to the liability being recorded in future periods (see note 25).

### Share-based payment costs

The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgments relating to the continuing participation of employees (see note 29).

### Disclosure of discontinued operations

At 30 June 2011, as a result of the Board's strategic decision to exit Indonesia, the Group's interests in the region were classified as a disposal group held for sale and therefore included as discontinued operations. The proposed disposal was noted as a core shift in strategy for the Serica Group, effected to re-allocate resources into new areas of Group focus. In October 2011 the Company disposed of its operated exploration portfolio in Indonesia to KrisEnergy Limited and closed its local office. The non-operated interest



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

in the Kambuna TAC has not yet been disposed of. The Company considers its intention to exit operations in Indonesia to represent a single coordinated plan to dispose of a geographic area of business. Accordingly it is considered appropriate to classify the results of the disposed sector as discontinued (see note 7) since it is part of the single plan. The Company's interest in the Kambuna TAC is still considered as available for sale however it does not meet the definition of an asset held for sale, or a discontinued operation in accordance with IFRS 5 at the reporting date.

### Basis of Consolidation

The consolidated financial statements include the accounts of Serica Energy plc (the "Company") and its wholly owned subsidiaries Serica Energy Corporation, Serica Energy Holdings B.V., Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited, Serica Energia Iberica S.L., Serica Holdings UK Limited, Serica Energy (UK) Limited, PDA Lematang Limited, APD (Asahan) Limited, APD (Biliton) Limited, Serica Glagah Kambuna B.V., Serica Sidi Moussa B.V. and Serica Fom Draa B.V. and Serica Namibia B.V. Together these comprise the "Group".

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

### Foreign Currency Translation

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

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

### Business Combinations and Goodwill

#### Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in administrative expenses.

#### Business combinations prior to 1 January 2010

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.

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

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

### Joint Venture Activities

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

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

## 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 (E&E)

The costs of exploring for and evaluating oil and gas properties, including the costs of acquiring rights to explore, geological and geophysical studies, exploratory drilling and directly related overheads, are capitalised and classified as intangible E&E assets. These costs are directly attributed to regional CGUs for the purposes of impairment testing; UK & Ireland and Africa.

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

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

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

### Asset Purchases and Disposals

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

### Farm-ins

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

## Property, Plant and Equipment – Oil and gas properties

### Capitalisation

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

### Depletion

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

The Kambuna field was depleted using proved and probable entitlement reserves until 30 June 2011.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The Company has assessed the expected useful life of the future economic benefits embodied in the asset and considers that given the relatively short remaining field life, the production profiles associated with proved reserves better reflect this expected pattern of consumption. Accordingly the Company has concluded that it is appropriate to use proved reserves as a basis for the specific depletion calculation for the Kambuna field asset with effect from 1 July 2011.

The impact of this change in accounting estimate in the 2011 financial statements is an increased depletion charge in the second half 2011 period of US\$2,320,000. The impact of the change in estimate on future periods is not considered practical to disclose.

### Impairment

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

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

### Asset Disposals

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

### Decommissioning

Liabilities for decommissioning costs are recognised when the Group has an obligation to dismantle and remove a production, transportation or processing facility and to restore the site on which it is located. Liabilities may arise upon construction of such facilities, upon acquisition or through a subsequent change in legislation or regulations. The amount recognised is the estimated present value of future expenditure determined in accordance with local conditions and requirements. A corresponding tangible item of property, plant and equipment equivalent to the provision is also created.

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

### Property, Plant and Equipment – Other

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

### Inventories

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

### Investments

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

### Financial Instruments

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

#### Financial assets

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

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

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

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

#### Cash and cash equivalents

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

#### Financial liabilities

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

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

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

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

#### Equity

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

### Revenue Recognition

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

### Finance Revenue

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

### Finance Costs

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

### Borrowing costs

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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### Share-Based Payment Transactions

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

#### Equity-settled transactions

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

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

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

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

### Income Taxes

Current tax, including UK corporation tax and overseas corporation tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

- temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and
- temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the income statement nor taxable profit or loss.

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

### Earnings Per Share

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

### New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011. The adoption of the standards or interpretations is described below:

i) IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

ii) IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

iii) Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of any amendments did not have any impact on the financial position or performance of the Group.

#### **Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

##### **IAS 1 Financial Statement presentation – Presentation of items of Other Comprehensive Income**

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be classified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

##### **IFRS 9 Financial Instruments: Classification and Measurement**

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015.

##### **IFRS 10 Consolidated Financial Statements**

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. The standard becomes effective for annual periods beginning on or after 1 January 2013.

##### **IFRS 11 Joint Arrangements**

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead JCEs that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after 1 January 2013.

##### **IFRS 12 Disclosure of Involvement with Other Entities**

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after 1 January 2013.

##### **IFRS 13 Fair Value Measurement**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard becomes effective for annual periods beginning on or after 1 January 2013.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 3. Segment Information

The Group's business is that of oil & gas exploration, development and production. The Group's reportable segments are based on the location of the Group's assets.

The following tables present revenue, profit and certain asset and liability information regarding the Group's geographical reportable segments for the years ended 31 December 2011 and 2010. Costs associated with the UK corporate centre and with Spain are included in the UK & Ireland reportable segment. Reportable information in respect of the Group's interest in the producing Kambuna field in Indonesia is disclosed as a separate segment. The information for the Indonesia exploration segment disposed in October 2011 is classified as discontinued.

#### Year ended 31 December 2011

	UK & Ireland US\$000	Africa US\$000	Kambuna US\$000	Continuing Total US\$000	Discontinued US\$000
<b>REVENUE</b>	–	–	27,111	27,111	–
<b>Continuing operations</b>					
Other expenses	(6,882)	(2)	(7,949)	(14,833)	(1,190)
Pre-licence costs	(290)	(1,217)	–	(1,507)	(292)
Asset write-offs	(20)	–	(335)	(355)	(788)
Impairment	–	–	(2,314)	(2,314)	–
Depletion	–	–	(17,716)	(17,716)	–
Depreciation	(348)	–	–	(348)	–
Operating loss and segment loss	(7,540)	(1,219)	(1,203)	(9,962)	(2,270)
Loss on re-measurement	–	–	–	–	(3,720)
Profit on disposal	–	–	–	–	110
Finance revenue	–	–	–	15	–
Finance costs	–	–	–	(1,394)	–
Loss before taxation	–	–	–	(11,341)	(5,880)
Taxation charge for the year	–	–	–	(3,149)	–
<b>LOSS AFTERTAXATION</b>	–	–	–	<b>(14,490)</b>	<b>(5,880)</b>
	<b>UK &amp; Ireland US\$000</b>	<b>Africa US\$000</b>	<b>Kambuna US\$000</b>	<b>Total US\$000</b>	
<b>Other segment information:</b>					
Exploration and evaluation assets	64,695	4,388	–	69,083	–
Plant, property and equipment	450	–	18,269	18,719	–
Other assets	13,600	417	10,093	24,110	–
Unallocated assets	–	–	–	11,400	–
<b>TOTAL ASSETS</b>	<b>78,745</b>	<b>4,805</b>	<b>28,362</b>	<b>123,312</b>	<b>–</b>
Segment liabilities	(4,073)	(3,423)	(5,102)	(12,598)	–
<b>TOTAL LIABILITIES</b>	<b>(4,073)</b>	<b>(3,423)</b>	<b>(5,102)</b>	<b>(12,598)</b>	<b>–</b>
<b>Capital expenditure 2011:</b>					
Exploration and evaluation assets	2,259	4,050	–	6,309	1,091
Property, plant and equipment	44	–	1,224	1,268	–

Year ended 31 December 2010

	UK & Ireland US\$000	Africa US\$000	Kambuna US\$000	Continuing Total US\$000	Restated * Discontinued US\$000
<b>REVENUE</b>	–	–	<b>31,302</b>	<b>31,302</b>	–
<b>Continuing operations</b>					
Other expenses	(7,646)	(1)	(7,259)	(14,906)	(902)
Pre-licence costs	(1,568)	(290)	–	(1,858)	(66)
Asset write offs	(3,815)	–	(276)	(4,091)	(25,395)
Impairment	–	–	(11,797)	(11,797)	–
Depletion	–	–	(11,479)	(11,479)	–
Depreciation	(132)	–	–	(132)	(5)
Operating loss and segment loss	(13,161)	(291)	491	(12,961)	(26,368)
Finance revenue				57	117
Finance costs				(4,083)	–
Loss before taxation				(16,987)	(26,251)
Taxation charge for the year				(979)	–
<b>LOSS AFTERTAXATION</b>				<b>(17,966)</b>	<b>(26,251)</b>
	UK & Ireland US\$000	Africa US\$000	Indonesia US\$000	Total US\$000	
<b>Other segment information:</b>					
Exploration and evaluation assets	62,436	338	5,830	68,604	
Plant, property and equipment	755	–	36,791	37,546	
Other assets	11,244	418	20,936	32,598	
Unallocated assets				21,000	
<b>TOTAL ASSETS</b>	<b>74,435</b>	<b>756</b>	<b>63,557</b>	<b>159,748</b>	
Segment liabilities	(4,331)	(200)	(13,554)	(18,085)	
Unallocated liabilities				(11,671)	
<b>TOTAL LIABILITIES</b>	<b>(4,331)</b>	<b>(200)</b>	<b>(13,554)</b>	<b>(29,756)</b>	
<b>Capital expenditure 2010:</b>					
Exploration and evaluation assets	10,144	309	20,116	30,569	
Property, plant and equipment	835	–	4,406	5,241	

\* Restated for discontinued operations – see note 7

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

#### Information about major customers

Gas sales revenue in 2010 and 2011 arose from three customers, the most significant being PLN and Pertiwi. All condensate sales revenue in 2010 and 2011 was from one customer, PLN.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 4. Sales Revenue

	2011 US\$000	2010 US\$000
Gas sales	15,093	15,276
Condensate sales	12,018	16,026
	<b>27,111</b>	<b>31,302</b>

Gas sales revenue in 2010 and 2011 arose from three customers, the most significant being PLN and Pertiwi. All condensate sales revenue in 2010 and 2011 was from one customer, PLN.

### 5. Cost of Sales

	2011 US\$000	2010 US\$000
Operating costs	7,749	7,575
Depletion (see note 16)	17,716	11,479
Movement in inventories of oil	183	(296)
	<b>25,648</b>	<b>18,758</b>

### 6. Analysis of Expenses by Function

	2011 US\$000	Restated * 2010 US\$000
Administrative	6,011	6,570
Asset write-offs	355	4,091
Other	5,059	14,844
	<b>11,425</b>	<b>25,505</b>

\* Restated for discontinued operations – see note 7

### 7. Discontinued Operation

In October 2011 the Group disposed of its wholly owned subsidiary, Serica Indonesia Holdings BV (which held Serica's Indonesian operating subsidiaries) to KrisEnergy Limited ("KrisEnergy"), an E&P company based in Singapore. The interests sold comprised a 100% interest in the East Seruway PSC, a 30.0% interest in the Kutai PSC in Indonesia and rights relating to certain Indonesian Joint Study Areas.

The financial results of the disposed Indonesian business group are disclosed as discontinued operations and separate from the results of the retained business segments. The disposal generated a loss of US\$3.6 million (chiefly comprising a loss of US\$3.7 million recognised on re-measurement to fair value as at 30 September 2011) after deducting the relevant book costs from E&E assets, working capital balances and applicable fees. Further details of book costs relating to the assets sold are summarised in the loss on disposal calculation below in section b).

The financial results of the Kambuna field interest had been disclosed in the Q2 2011 and Q3 2011 reports to shareholders as part of discontinued operations. Following the completion of the separate disposal of the Group's operated Indonesian exploration portfolio a 2011 year end review was performed to assess the likelihood of a disposal of the Kambuna asset. As this event is no longer considered 'highly probable', the directors consider that as at 31 December 2011, this operation no longer meets the IFRS 5 criteria to recognise it as 'discontinued'. The annual financial results of the Kambuna field are therefore now disclosed within continuing operations together with the results of the retained core business segments.

#### a) Results of discontinued operations

The results of the discontinued operations are presented below:

	Year ended 31 December 2011 US\$000	Year ended 31 December 2010 US\$000
<b>SALES REVENUE</b>	-	-
Cost of sales	-	-
<b>GROSS PROFIT</b>	-	-
Pre-licence costs	(292)	(66)
E&E and other asset write offs	(788)	(25,395)
Administrative expenses	(621)	(783)
Foreign exchange loss	(3)	(5)
Share-based payments	(203)	(114)
Depreciation	-	(5)
<b>OPERATING LOSS</b>	<b>(1,907)</b>	<b>(26,368)</b>
Other costs	(363)	-
Loss recognised on re-measurement to fair value	(3,720)	-
Profit on disposal	110	-
Finance revenue	-	117
<b>LOSS BEFORE TAXATION</b>	<b>(5,880)</b>	<b>(26,251)</b>
Taxation charge for the year	-	-
<b>LOSS FOR THE YEAR</b>	<b>(5,880)</b>	<b>(26,251)</b>
<b>Loss per ordinary share (EPS)</b>	<b>US\$</b>	<b>US\$</b>
Basic and diluted EPS on result in year	(0.03)	(0.15)

The loss per ordinary share for the discontinued operations is derived from the net loss attributable to equity holders of the parent from discontinued operations of US\$5,880,000 (2010: loss of US\$26,251,000), divided by the weighted average number of ordinary shares for both basic and diluted amounts as disclosed in note 14.

There are no taxation components within discontinued operations.

The net cash flows attributable to the disposal group in discontinued operations are as follows:

Year ended 31 December:	2011 US\$000	2010 US\$000
Operating cash (out)/inflows	(4,027)	696
Investing cash in/(out)flows <sup>(1)</sup>	2,581	(19,999)
Financing cash outflows <sup>(2)</sup>	-	-
<b>Net cash (out)flow</b>	<b>(1,446)</b>	<b>(19,303)</b>

(1) Investing cash inflows in 2010 exclude proceeds of US\$99,532,000 received from the 2009 asset disposal to Kris Energy.

(2) Repayments of loans and borrowings are classified as corporate cash outflows and excluded from discontinued operations.

#### b) Analysis of loss recognised on re-measurement to fair value and profit on disposal

The interests sold comprised a 30.0% interest in the Kutai PSC in Indonesia and a 100% interest in the East Seruway PSC in Indonesia. Further details of book costs relating to the assets sold are given in note 15 and summarised in the disposal calculation below:

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

<b>Disposal of business</b>	<b>Total 2011 US\$000</b>
<b>Net assets disposed of</b>	
E&E assets (see note 15)	
100% interest in East Seruway PSC	6,921
30.0% interest in Kutai PSC	–
Working capital, other assets and liabilities and applicable costs	1,137
	<b>8,058</b>
Loss recognised on re-measurement to fair value	(3,720)
Profit on disposal	110
<b>TOTAL DISPOSAL CONSIDERATION</b>	<b>4,448</b>
Cash and cash equivalents disposed of	(776)
<b>CASH INFLOW ON DISPOSALS</b>	<b>3,672</b>
Analysis of disposal consideration:	
Base consideration	3,142
Interim period adjustments	306
Contingent consideration	1,000
<b>Total disposal consideration</b>	<b>4,448</b>

### 8. Group Operating Loss

	<b>2011 US\$000</b>	<i>2010 US\$000</i>
<b>This is stated after charging:</b>		
Depletion of oil and gas properties	17,716	11,479
Depreciation of other property, plant and equipment	348	137
<b>TOTAL DEPRECIATION, DEPLETION AND AMORTISATION EXPENSE</b>	<b>18,064</b>	<b>11,616</b>
Depletion of oil and gas properties is classified with cost of sales.		
Operating lease rentals (minimum lease payments):		
– Land and buildings	590	407
– Other	21	10
<b>TOTAL LEASE PAYMENTS RECOGNISED AS AN EXPENSE</b>	<b>611</b>	<b>417</b>

## 9. Auditor's Remuneration

	2011 US\$000	2010 US\$000
Audit of the Group accounts	109	140
Audit of the Company's accounts	37	46
<b>TOTAL AUDIT FEES</b>	<b>146</b>	<b>186</b>
Other fees to auditor:		
Audit of Company's subsidiaries pursuant to legislation	16	18
Other services pursuant to legislation	59	57
Other services <sup>(i)</sup>	26	21
	<b>101</b>	<b>96</b>

(i) Other fees were incurred in respect of various other assurance services in 2010 and 2011.

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

## 10. Staff Costs and Directors' Emoluments

### a) Staff Costs

The average monthly number of persons employed by the Group during the year was:

	2011 No.	2010 No.
Management	3	3
Technical	10	17
Finance and administration	12	16
	<b>25</b>	<b>36</b>

	US\$000	US\$000
Staff costs for the above persons:		
Wages and salaries	3,294	3,740
Social security costs	387	401
Other pension costs	421	592
Share-based long-term incentives (including related NI cost)	1,028	1,201
	<b>5,130</b>	<b>5,934</b>

Staff costs for key management personnel:

Short-term employee benefits	1,620	1,643
Post-employment benefits	91	109
Share-based payments	238	426
	<b>1,949</b>	<b>2,178</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### b) Directors' Emoluments

The emoluments of the individual Directors were as follows:

	Salary and fees 2011 US\$000	Bonus 2011 US\$000	Pension 2011 US\$000	Benefits in kind 2011 US\$000	Total 2011 US\$000	Total 2010 US\$000
A Craven Walker <sup>(2)</sup>	112	–	–	–	112	108
P Ellis <sup>(1)</sup>	129	–	15	10	154	457
C Hearne	355	89	36	11	491	366
P Sadler	404	101	40	12	557	417
N Pike	64	–	–	–	64	62
I Vann	56	–	–	–	56	54
S Theede	56	–	–	–	56	54
J Cartwright	56	–	–	–	56	54
	<b>1,232</b>	<b>190</b>	<b>91</b>	<b>33</b>	<b>1,546</b>	<b>1,572</b>

(1) Paul Ellis retired on 10 April 2011

(2) Mr Craven Walker acted as Interim CEO from 10 April 2011 pending the appointment of a successor to Mr Ellis. At the request of Mr Craven Walker the fees proposed by the Board for this service, amounting to £150,000, were contingent upon certain strategic milestones being achieved by the Company. These fees are expected to be paid in 2012.

Number of Directors securing benefits under defined contribution schemes	3	3
Number of Directors who exercised share options	–	–
	<b>US\$000</b>	<b>US\$000</b>
Aggregate gains made by Directors on the exercise of options	–	–

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

### 11. Finance Revenue

	2011 US\$000	Restated * 2010 US\$000
Bank interest receivable	15	57
<b>TOTAL FINANCE REVENUE</b>	<b>15</b>	<b>57</b>

\* Restated for discontinued operations – see note 7

### 12. Finance Costs

	2011 US\$000	2010 US\$000
Bank loans	1,354	4,083
Unwinding of discount	40	–
<b>TOTAL FINANCE COSTS</b>	<b>1,394</b>	<b>4,083</b>

Bank loan finance costs include interest payable, unutilised facility fees and an amortisation charge of associated issue costs.

### 13. Taxation

	2011 US\$000	2010 US\$000
<b>a) Tax charged/(credited) in the income statement</b>		
Charge for the year	4,520	1,302
Adjustment in respect of prior years	(32)	(227)
Total current income tax charge	4,488	1,075
<b>Deferred tax</b>		
Origination and reversal of temporary differences in the current year	(1,339)	78
Adjustment in respect of prior years	–	65
Adjustment to reflect tax rate changes in recognition of deferred tax	–	(239)
Total deferred tax (credit)	(1,339)	(96)
<b>TAX CHARGE IN THE INCOME STATEMENT</b>	<b>3,149</b>	<b>979</b>

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

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:

	2011 US\$000	2010 US\$000
Accounting loss before taxation – continuing operations	(11,341)	(16,987)
Accounting loss before taxation – discontinued operations	(5,880)	(26,251)
Accounting loss before taxation	(17,221)	(43,238)
Expected tax credit at standard UK corporation tax rate of 26.5% (2010 – 28%)	(4,564)	(12,107)
Expenses not deductible for tax purposes	2,441	11,292
Unrecognised deferred tax assets	5,456	4,560
Effect of tax rate change	–	(239)
Prior period adjustment	(32)	(164)
Different foreign tax rates	(152)	(2,363)
<b>TAX CHARGE REPORTED IN THE INCOME STATEMENT</b>	<b>3,149</b>	<b>979</b>

#### c) Unrecognised tax losses

The benefit of approximately US\$81.7 million (2010: US\$86.5 million) of tax losses has not been recognised in these consolidated statements which reflects the extent of the total available UK tax losses that have not been set against a deferred tax liability arising. The Group has UK tax losses of approximately US\$138.7 million (2010: US\$142.3 million) that are available indefinitely for offset against future trading profits of the companies in which the losses arose. Of this amount US\$57.0 million (2010: US\$55.8 million) has been set off against taxable temporary differences.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### d) Deferred tax

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

	2011 US\$000	2010 US\$000
<b>Deferred tax liability:</b>		
Temporary differences on capital expenditure	(35,357)	(31,060)
Temporary difference on decommissioning asset	(396)	(631)
Deferred tax liability	<u>(35,753)</u>	<u>(31,691)</u>
<b>Deferred tax asset:</b>		
Temporary difference on future recoverable costs	–	1,833
Tax losses carried forward	35,357	27,888
Temporary difference on decommissioning provision	396	631
Deferred tax asset	<u>35,753</u>	<u>30,352</u>
<b>NET DEFERRED TAX LIABILITY</b>	<u>–</u>	<u>(1,339)</u>

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

	2011 US\$000	2010 US\$000
<b>Deferred tax in the income statement:</b>		
Temporary differences on capital expenditure	4,297	(6,275)
Temporary difference on future recoverable costs	1,833	8,474
Tax losses carried forward	(7,469)	(2,147)
Fair value adjustment on business combinations	–	(148)
Temporary difference on decommissioning asset	(235)	631
Temporary difference on decommissioning provision	235	(631)
<b>DEFERRED INCOME TAX (CREDIT)</b>	<u>(1,339)</u>	<u>(96)</u>

### e) Changes to UK corporation tax legislation

The Finance Act 2011 legislated for a reduction in the main rate of UK corporation tax from 26% to 25% to have effect from 1 April 2011. However, following the 2012 Budget a further reduction to 24% was enacted on 26 March 2012 to have effect from 1 April 2012. At the same time the Government stated their intention to implement a further series of phased reductions such that from 1 April 2014 the main rate of UK corporation tax is 22% (the further reductions are expected to be enacted into legislation in future Finance Acts). The UK corporation tax rate for ring-fenced trading profits remains 62% following the March 2011 budget.

On 21 March 2012 the UK Government announced its intention to increase the extent to which the Small Field Allowance ("SFA") is available in respect of small developments. The proposals would extend the allowance to fields with reserves of 6.25 million tonnes from the current threshold of 3.5 million tonnes and would increase the allowance available in respect of a qualifying field from £75m (US\$120m) to £150m (US\$240m). At the date of signing these accounts legislation had not been enacted to incorporate the extended availability of the allowance into UK corporation tax law.

### f) Unrecognised deferred tax liability

In 2011 there are no material temporary differences associated with investments with subsidiaries for which deferred tax liabilities have not been recognised.

### g) Company

The Company has US\$20.2 million (2010: US\$ 16.2 million) of UK corporation tax losses for which are not recognised as deferred tax assets.

#### 14. Earnings Per Share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. As a result of the net loss for the years ended 31 December 2010 and 2011, there is no dilutive effect of the share options in these years.

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

	2011 US\$000	2010 US\$000
Net loss from continuing operations	(14,490)	(17,966)
Net loss attributable to equity holders of the parent	(20,370)	(44,217)
	2011 '000	2010 '000
Basic weighted average number of shares	176,657	176,556
Diluted weighted average number of shares	176,657	176,556
	2011 US\$	2010 US\$
Basic and diluted EPS on loss on continuing operations (US\$)	(0.08)	(0.10)
Basic and diluted EPS on loss for the year (US\$)	(0.12)	(0.25)

As noted in the Operations review, Serica expects to satisfy an agreed signature payment of US\$2 million to NAMCOR through an allotment of ordinary shares of Serica during the second quarter 2012. The initial agreement of 6 million ordinary shares (which represents approximately 3.28% of the enlarged issued share capital of Serica) is subject to variation based on the value of the shares on the day of allotment. To the extent that the value of 6 million ordinary shares is more than US\$2 million on the day of allotment, then Serica may reduce the number of shares allotted; alternatively, if the value is less than US\$2 million, Serica may either increase the number of shares allotted or pay the cash equivalent of the difference to NAMCOR.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 15. Exploration and Evaluation Assets

Group	Total US\$000
<b>Cost:</b>	
1 January 2010	66,030
Additions	30,569
Relinquished licences	(174)
Write offs	(27,821)
31 December 2010	68,604
Additions	7,400
Disposals (note 7)	(6,921)
31 December 2011	69,083
<b>Provision for impairment:</b>	
1 January 2010 and 1 January 2011	–
Impairment charge for the year	–
31 December 2011	–
<b>Net book value:</b>	
<b>31 DECEMBER 2011</b>	<b>69,083</b>
<b>31 DECEMBER 2010</b>	<b>68,604</b>
<b>1 JANUARY 2010</b>	<b>66,030</b>

2011 additions of US\$7,400,000 were split between US\$6,309,000 in continuing operations and US\$1,091,000 in discontinued operations.

Total asset write-offs expensed in the income statement in 2010 were US\$4,091,000 from continuing operations and US\$25,395,000 from discontinued operations. This charge comprised E&E asset write-offs (US\$27,821,000), costs of relinquished licences (US\$174,000), long-term VAT costs incurred on the Kutai PSC (US\$843,000), an impairment of other Indonesian VAT (US\$276,000) obsolete inventory in Indonesia (US\$226,000) and other minor amounts.

The E&E asset write-offs during 2010 totalled US\$27,821,000 with the most significant component being the Q4 2010 charge of US\$24,295,000 which related to the costs incurred on the Kutai asset in Indonesia and US\$3,526,000 on Block 22/19c (Oates) in the UK North Sea.

#### Company

The Company has no E&E assets.

## 16. Property, Plant and Equipment

Group	Oil and gas properties US\$000	Computer/IT Equipment US\$000	Fixtures, Fittings & Equipment US\$000	Total US\$000
<b>Cost</b>				
1 January 2010	54,935	204	431	55,570
Additions	4,364	82	795	5,241
Decommissioning asset	1,706	–	–	1,706
Disposals (see note 10)	–	–	(277)	(277)
31 December 2010	61,005	286	949	62,240
Additions	1,189	–	79	1,268
Reclassification	121	–	(121)	–
Decommissioning asset	283	–	–	283
Disposals	–	(97)	(6)	(103)
31 December 2011	62,598	189	901	63,688
<b>Depreciation and depletion</b>				
1 January 2010	1,171	174	361	1,706
Charge for the year	11,479	34	103	11,616
Disposals	–	–	(277)	(277)
Impairment	11,649	–	–	11,649
31 December 2010	24,299	208	187	24,694
Charge for the year	17,716	38	310	18,064
Disposals	–	(97)	(6)	(103)
Impairment	2,314	–	–	2,314
31 December 2011	44,329	149	491	44,969
<b>Net book value</b>				
<b>31 DECEMBER 2011</b>	<b>18,269</b>	<b>40</b>	<b>410</b>	<b>18,719</b>
<b>31 DECEMBER 2010</b>	<b>36,706</b>	<b>78</b>	<b>762</b>	<b>37,546</b>
<b>1 JANUARY 2010</b>	<b>53,764</b>	<b>30</b>	<b>70</b>	<b>53,864</b>

### Impairment of oil and gas properties

The Group performed its annual impairment test as at 31 December 2010 and 2011. In assessing whether a write-down is required in the carrying value of a potentially impaired item of property, plant and equipment or goodwill, the asset's carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Oil and gas properties include an impairment calculated in accordance with IAS 36 – Impairment of assets, of US\$2,314,000 [2010: US\$11,797,000 attributed to oil and gas properties (US\$11,649,000) and goodwill (US\$148,000)] determined by estimating the value in use of the assets. This impairment charge is against the Group's only gas condensate producing asset, Glagah Kambuna in Indonesia. The impairment has primarily arisen following the trigger of a downwards revision to field reserves estimates.

The recoverable amount of Kambuna has been determined on a value in use calculation using a discounted cash flow model. The projected cash flows are adjusted for risks specific to the asset and are discounted using a pre-tax discount rate. This discount rate is derived from the Group's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks relating to the region where the cash generating unit is located. The discount rate applied to cash flow projections is 12% (2010: 16%) and cash flows are extrapolated using a 2% growth rate.

The calculation of value in use is most sensitive to the following assumptions; reserves estimates, discount rates and oil prices.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The estimated recoverable amount is equal to its carrying value and, consequently, any adverse change in any of the above key assumptions would cause the carrying value to exceed its recoverable amount and a further impairment loss to be recognised.

### Other

Depletion charges on oil and gas properties are classified within 'cost of sales'.

Borrowing interest payable costs relating to drilling of development wells, that have been capitalised within oil and gas properties during 2009, prior to the commencement of production, amounted to US\$1.2 million, at a weighted average interest of 4.6%.

### Company

The Company has no property, plant and equipment.

## 17. Goodwill

Group	Total US\$000
At 1 January 2010	148
Impairment	(148)
<b>AT 31 DECEMBER 2010 AND 2011</b>	<b>–</b>

Goodwill acquired through business combinations was allocated for impairment testing purposes in one cash-generating unit, Indonesia.

This represented the lowest level within the Group at which goodwill is monitored for internal management purposes.

Goodwill includes an impairment calculated in accordance with IAS 36 - Impairment of assets, of US\$148,000 determined by estimating the value in use of the assets. This impairment charge arose in 2010 and is against the Group's gas condensate producing asset, Glagah Kambuna in Indonesia. The impairment arose in respect of a downwards revision to the field reserves estimates recorded as at 31 December 2010.

### Company

The Company has no goodwill.

## 18. Investments

Company – Investment in subsidiaries	US\$000
Cost:	
At 1 January 2010	130,684
Provision for impairment	(118,854)
At 31 December 2010	11,830
Provision for impairment	–
<b>AT 31 DECEMBER 2011</b>	<b>11,830</b>

In the Company financial statements, the cost of the investment acquired on the Reorganisation (see note 1) was calculated with reference to the market value of Serica Energy Corporation as at the date of the Reorganisation. As a UK company, under Section 612 of the Companies Act 2006, the Company is entitled to merger relief on its share reorganisation with Serica Energy Corporation, and the excess of US\$112,174,000 over the nominal value of shares issued (US\$7,475,000) has been credited to a merger reserve.

Management has assessed the carrying value of investments in subsidiaries in the parent company balance sheet for impairment by reference to the recoverable amount.

The provisions for impairment arising in 2010 of US\$118,854,000 against the investment in subsidiaries, and US\$7,339,000 against amounts owed by Group undertakings (see note 21) have been made following a fall in value in certain of the oil and gas assets held by the Company's subsidiary undertakings. The most significant factors influencing the fall in value have been the reduction in booked reserves of the Kambuna field, and sub commercial results from the Group's exploration drilling in the UK and Indonesia during 2010. The recoverable amounts have been determined on a value in use basis, applying discount rates ranging from 15% to 16%.

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 2011	% voting rights and shares held 2010
Serica Energy Holdings B.V. <sup>(iii)</sup>	Ordinary	Holding	100	100
Serica Holdings UK Ltd	Ordinary	Holding	100	100
Serica Energy (UK) Ltd <sup>(i)</sup>	Ordinary	Exploration	100	100
Serica Glagah Kambuna BV <sup>(i &amp; iii)</sup>	Ordinary	Development	100	100
Serica Sidi Moussa BV <sup>(i &amp; iii)</sup>	Ordinary	Exploration	100	100
Serica Fom Draa BV <sup>(i &amp; iii)</sup>	Ordinary	Exploration	100	100
Serica Energy Slyne BV <sup>(i &amp; iii)</sup>	Ordinary	Exploration	100	100
Serica Energy Rockall BV <sup>(i &amp; iii)</sup>	Ordinary	Exploration	100	100
Serica Energia Iberica SL <sup>(i &amp; iv)</sup>	Ordinary	Exploration	100	100
Serica Energy Corporation <sup>(i &amp; ii)</sup>	Ordinary	Dormant	100	100
Serica Energy Namibia BV <sup>(i &amp; iii)</sup>	Ordinary	Exploration	100	-
APD Ltd <sup>(i &amp; ii)</sup>	Ordinary	Dormant	100	100
APD (Asahan) Ltd <sup>(i &amp; ii)</sup>	Ordinary	Dormant	100	100
APD (Billiton) Ltd <sup>(i &amp; ii)</sup>	Ordinary	Dormant	100	100
PDA Asia Ltd <sup>(i &amp; ii)</sup>	Ordinary	Dormant	100	100
PDA (Lematang) Ltd <sup>(i)</sup>	Ordinary	Dormant	100	100
Entities sold in 2011				
Serica Indonesia Holdings BV <sup>(iii)</sup>	Ordinary	Holding	-	100
Serica Kutei BV <sup>(iii)</sup>	Ordinary	Exploration	-	100
Serica East Seruway BV <sup>(iii)</sup>	Ordinary	Exploration	-	100
Serica Energy Pte Ltd <sup>(v)</sup>	Ordinary	Admin	-	100

(i) Held by a subsidiary undertaking

(ii) Incorporated in the British Virgin Islands

(iii) Incorporated in the Netherlands

(iv) Incorporated in Spain

(v) Incorporated in Singapore

## 19. Other Non-current Assets

	Group 2011 US\$000	2010 US\$000	Company 2011 US\$000	2010 US\$000
FINANCIAL ASSETS	394	1,431	394	1,431
OTHER RECEIVABLES	3,613	4,748	-	-

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

Other receivables are represented by value added tax ("VAT") on Indonesian capital spend, which would be recovered from future production. Amounts at 31 December 2011 are disclosed net of an impairment of US\$611,000 (2010: US\$276,000).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 20. Inventories

	Group 2011 US\$000	2010 US\$000	Company 2011 US\$000	2010 US\$000
Condensate stocks	264	447	–	–
Materials and spare parts	1,308	2,301	–	–
	<b>1,572</b>	<b>2,748</b>	<b>–</b>	<b>–</b>

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. No amount of materials and spare parts inventory was expensed in the income statement as an asset write-off in 2011 (2010: US\$226,000).

### 21. Other Current Receivables

	Group 2011 US\$000	2010 US\$000	Company 2011 US\$000	2010 US\$000
<b>Due within one year:</b>				
Amounts owed by Group undertakings	–	–	114,860	122,438
Trade receivables	3,696	5,513	–	–
Other receivables	5,172	8,306	397	431
Prepayments and accrued income	470	850	55	433
<b>TRADE AND OTHER RECEIVABLES</b>	<b>9,338</b>	<b>14,669</b>	<b>115,312</b>	<b>123,302</b>
<b>FINANCIAL ASSETS</b>	<b>647</b>	<b>–</b>	<b>647</b>	<b>–</b>

Trade receivables at 31 December 2011 arise from three customers, including PLN.

At the reporting date the Group had no past due or impaired trade and other receivables. The Directors consider the carrying amount of trade and other receivables approximates to their fair value.

Financial assets entirely relate to restricted cash on deposit with financial institutions securing various guarantees and performance bonds associated with the Group's trading activities. Management considers that there are no unreasonable concentrations of credit risk within the Group or Company. The financial assets disclosed above are not considered past due nor impaired.

At the reporting date the amounts owed by Group undertakings to the Company are disclosed net of an impairment of US\$7,339,000 (2010: US\$7,339,000) – see note 18.

### 22. Cash and Short-Term Deposits

	Group 2011 US\$000	2010 US\$000	Company 2011 US\$000	2010 US\$000
Cash at bank and in hand	8,546	9,002	7,742	5,696
Short-term deposits	11,400	21,000	11,400	21,000
	<b>19,946</b>	<b>30,002</b>	<b>19,142</b>	<b>26,696</b>

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

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

	S&P credit rating	Group 2011 US\$000	2010 US\$000	Company 2011 US\$000	2010 US\$000
HSBC Bank plc	A-1+	6,229	7,339	6,031	4,919
J.P. Morgan Chase	A-1	7,320	8,133	7,320	8,133
Barclays Bank plc	A-1	6,364	7,478	5,790	6,643
Bank of Scotland PLC	A-1	–	7,000	–	7,000

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

### 23. Trade and Other Payables

	Group 2011 US\$000	2010 US\$000	Company 2011 US\$000	2010 US\$000
<b>Current:</b>				
Trade payables	857	3,961	370	603
Other payables	9,410	9,613	263	336
	<b>10,267</b>	<b>13,574</b>	<b>633</b>	<b>939</b>

### 24. Financial Liabilities

	Group 2011 US\$000	2010 US\$000	Company 2011 US\$000	2010 US\$000
<b>Current bank loans:</b>				
Variable rate multi-option facility	–	11,671	–	11,671
	<b>–</b>	<b>11,671</b>	<b>–</b>	<b>11,671</b>

#### Bank loans

On 16 November 2009 the Company entered into a new US\$100 million senior secured revolving credit facility to replace its previous facility of a similar amount. The facility, which has been arranged with J.P.Morgan plc, Bank of Scotland plc and Natixis as Mandated Lead Arrangers, is for a term of three years. The facility was initially utilised to refinance the Company's outstanding borrowings on the Kambuna field but is also available to finance the appraisal and development of the Columbus field and for general corporate purposes. The facility is secured by first charges over the Group's interests in the Kambuna field in Indonesia and the Columbus field in the UK North Sea and the shares of certain subsidiary companies.

Following the significant repayments of borrowings in 2010, management decided to reduce the facility to US\$50 million so as to restrict ongoing facility costs.

The total gross liability as at 31 December 2010 was US\$11.8 million which is disclosed net of the unamortised portion of allocated issue costs. All drawings under the facility were repaid in February 2011.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 25. Provisions

Provisions for decommissioning and restoration of oil and gas assets are:

	2011 US\$000	2010 US\$000
At 1 January	1,706	–
Additions	283	1,706
Unwinding of discount	40	–
<b>AT 31 DECEMBER</b>	<b>2,029</b>	<b>1,706</b>

The decommissioning for the Kambuna field is expected to take place from 2015. Payments made in the period into a restricted fund are recognised as a separate asset and not deducted from the gross liability.

### 26. Financial Instruments

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

Serica has exposure to interest rate fluctuations on its cash deposits and bank loans; given the level of expenditure plans over 2012/13 this is managed in the short-term through selecting treasury deposit periods of one to three months. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise concentration and counterparty risk.

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

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

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

#### Interest Rate Risk Profile of Financial Assets and Liabilities

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

#### Group

Year ended 31 December 2011

	Within 1 year US\$000	1-2 years US\$000	2-5 years US\$000	Total US\$000
<b>Fixed rate</b>				
Short-term deposits	11,400	–	–	11,400
Short-term financial assets	647	–	–	647
Long-term financial assets	–	394	–	394
				<b>12,441</b>
<b>Floating rate</b>				
Cash	8,546	–	–	8,546
				<b>8,546</b>

**Year ended 31 December 2010**

	<i>Within 1 year</i> <i>US\$000</i>	<i>1-2 years</i> <i>US\$000</i>	<i>2-5 years</i> <i>US\$000</i>	<i>Total</i> <i>US\$000</i>
<b>Fixed rate</b>				
Short-term deposits	21,000	–	–	21,000
Long-term financial assets	–	1,431	–	1,431
				<b>22,431</b>
<b>Floating rate</b>				
Cash	9,002	–	–	9,002
Bank loans	(11,671)	–	–	(11,671)
				<b>(2,669)</b>

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

<b>Increase/decrease in interest rate</b>	<b>Effect on loss before tax 2011 US\$000</b>	<i>Effect on loss before tax 2010 US\$000</i>
+0.75%	160	125
-0.75%	(160)	(125)

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

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

**Company**

**Year ended 31 December 2011**

	<i>Within 1 year</i> <i>US\$000</i>	<i>1-2 years</i> <i>US\$000</i>	<i>2-5 years</i> <i>US\$000</i>	<i>Total</i> <i>US\$000</i>
<b>Fixed rate</b>				
Short-term deposits	11,400	–	–	11,400
Short-term financial assets	647	–	–	647
Long-term financial assets	–	394	–	394
				<b>12,441</b>
<b>Floating rate</b>				
Cash	7,742	–	–	7,742
Bank loans	–	–	–	–
				<b>7,742</b>



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### Year ended 31 December 2010

	Within 1 year US\$000	1-2 years US\$000	2-5 years US\$000	Total US\$000
<b>Fixed rate</b>				
Short-term deposits	21,000	–	–	21,000
Long-term financial assets	1,431	–	–	1,431
				<b>22,431</b>
<b>Floating rate</b>				
Cash	5,696	–	–	5,696
Bank loans	(11,671)	–	–	(11,671)
				<b>(5,975)</b>

### Credit risk

The Group's and Company's exposure to credit risk relating to financial assets arises from the default of a counterparty with a maximum exposure equal to the carrying value as at the balance sheet date. Where Serica operates joint ventures on behalf of partners it seeks to recover the appropriate share of costs from these third parties. The majority of partners in these ventures are well established oil and gas companies. In the event of non payment, operating agreements typically provide recourse through increased venture shares. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.

### Foreign currency risk

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

	Group 2011 US\$000	2010 US\$000	Company 2011 US\$000	2010 US\$000
<b>Cash and cash equivalents:</b>				
Pounds sterling	504	602	165	64
Canadian dollars	9	21	4	17
Norwegian kroner	20	253	–	–
Singapore dollars	–	67	–	–
Indonesian rupiah	27	53	–	–
Euros	229	36	–	–
<b>Accounts receivable:</b>				
Pounds sterling	2,664	1,669	1,094	1,496
<b>Trade payables:</b>				
Pounds sterling	3,116	1,830	377	185
Canadian dollars	1	184	1	184
Euros	83	31	78	23

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

	Effect on (loss) before tax 2011 US\$000	Effect on (loss) before tax 2010 US\$000
<b>Increase/decrease in foreign exchange rate</b>		
10% strengthening of US\$ against £GBP	(5)	(45)
10% weakening of US\$ against £GBP	5	45

## Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 based on contractual undiscounted payments. The Group monitors its risk to a potential shortage of funds by monitoring the maturity dates of existing debt. Calculations in the table below use interest rates on variable rate loans based on a forward curve. The bank loan liability shown is the amount due as at 31 December 2010 gross of associated unamortised financing costs. This balance relates to both the Group and the Company.

Year ended 31 December 2011	Within 1 year US\$000	1 to 2 years US\$000	2 to 5 years US\$000	Total US\$000
Trade and other payables	10,267	–	–	10,267
<i>Year ended 31 December 2010</i>	<i>Within 1 Year US\$000</i>	<i>1 to 2 years US\$000</i>	<i>2 to 5 years US\$000</i>	<i>Total US\$000</i>
Interest bearing bank loans	11,800	–	–	11,800
Trade and other payables	13,574	–	–	13,574

The loan was repaid in February 2011, with associated interest for the period of US\$0.1 million.

## Commodity price risk

During 2010 and 2011, all of the Group's gas production was sold at fixed contracted prices.

All condensate production was sold at prices linked to the spot market, and fluctuations in condensate price will be largely offset by variations in cost recovery.

## 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		Fair value	
	2011 US\$000	2010 US\$000	2011 US\$000	2010 US\$000
<b>Financial assets</b>				
Cash and deposits	19,946	30,002	19,946	30,002
Non-current financial assets	394	1,431	394	1,431
Current financial assets	647	–	647	–
Trade and other receivables *	8,868	13,819	8,868	13,819
<b>Financial liabilities</b>				
Trade and other payables *	(10,267)	(13,574)	(10,267)	(13,574)
Bank loans *	–	(11,671)	–	(11,800)
<b>Company</b>				
<b>Financial assets</b>				
Cash and deposits	19,142	26,696	19,142	26,696
Non-current financial assets	394	1,431	394	1,431
Current financial assets	647	–	647	–
Trade and other receivables *	115,257	122,869	115,257	122,869
<b>Financial liabilities</b>				
Trade and other payables *	(633)	(939)	(633)	(939)
Bank loans *	–	(11,671)	–	(11,800)

\* at amortised cost

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

### Capital management

The primary objective of the Group's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration and development expenditure, and to safeguard the entity's ability to continue as a going concern and create shareholder value. At 31 December 2011, capital employed of the Group amounted to US\$110.7 million (comprised of US\$110.7 million of equity shareholders' funds and US\$nil million of borrowings), compared to US\$141.7 million at 31 December 2010 (comprised of US\$130.0 million of equity shareholders' funds and US\$11.7 million of borrowings).

At 31 December 2011, capital employed of the Company amounted to US\$146.7 million (comprised of US\$146.7 million of equity shareholders' funds and US\$nil million of borrowings), compared to US\$162.3 million at 31 December 2010 (comprised of US\$150.6 million of equity shareholders' funds and US\$11.7 million of borrowings).

### 27. Equity Share Capital

The concept of authorised share capital was abolished under the Companies Act 2006 and shareholders approved the adoption of new Articles of Association at the 2010 Annual General Meeting which do not contain any reference to authorised share capital.

The share capital of the Company comprises one "A" share of £50,000 and 176,660,310 ordinary shares of US\$0.10 each. The "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 and one 'A' share.

Allotted, issued and fully paid:		Share capital	Share premium	Total
Group	Number	US\$000	US\$000	Share capital US\$000
As at 1 January 2010	176,518,311	17,742	189,891	207,633
Options exercised <sup>(i)</sup>	52,000	5	19	24
31 December 2010	176,570,311	17,747	189,910	207,657
Options exercised <sup>(ii)</sup>	90,000	9	36	45
<b>AS AT 31 DECEMBER 2011</b>	<b>176,660,311</b>	<b>17,756</b>	<b>189,946</b>	<b>207,702</b>

Allotted, issued and fully paid:		Share capital	Share premium	Total
Company	Number	US\$000	US\$000	Share capital US\$000
As at 1 January 2010	176,518,311	17,742	154,619	172,361
Options exercised <sup>(i)</sup>	52,000	5	19	24
As at 31 December 2010	176,570,311	17,747	154,638	172,385
Options exercised <sup>(ii)</sup>	90,000	9	36	45
<b>AS AT 31 DECEMBER 2011</b>	<b>176,660,311</b>	<b>17,756</b>	<b>154,674</b>	<b>172,430</b>

i) In April 2010, 52,000 share options were converted to ordinary shares at a price of £0.32.

ii) In January 2011, 90,000 share options were converted to ordinary shares at a price of £0.32.

## 28. Additional Cash Flow Information

### Analysis of Group net cash

Year ended 31 December 2011	1 January 2011 US\$000	Cash flow US\$000	Non-cash movements US\$000	31 December 2011 US\$000
Cash	9,002	(450)	(6)	8,546
Short-term deposits	21,000	(9,600)	–	11,400
	<b>30,002</b>	<b>(10,050)</b>	<b>(6)</b>	<b>19,946</b>

### Year ended 31 December 2010

	1 January 2010 US\$000	Cash flow US\$000	Non-cash movements US\$000	31 December 2010 US\$000
Cash	2,112	6,922	(32)	9,002
Short-term deposits	16,300	4,745	(45)	21,000
	<b>18,412</b>	<b>11,667</b>	<b>(77)</b>	<b>30,002</b>

### Analysis of Company net cash

Year ended 31 December 2011	1 January 2011 US\$000	Cash flow US\$000	Non-cash movements US\$000	31 December 2011 US\$000
Cash	5,696	2,050	(4)	7,742
Short-term deposits	21,000	(9,600)	–	11,400
	<b>26,696</b>	<b>(7,550)</b>	<b>(4)</b>	<b>19,142</b>

### Year ended 31 December 2010

	1 January 2010 US\$000	Cash flow US\$000	Non-cash movements US\$000	31 December 2010 US\$000
Cash	622	5,084	(10)	5,696
Short-term deposits	16,300	4,735	(35)	21,000
	<b>16,922</b>	<b>9,819</b>	<b>(45)</b>	<b>26,696</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 29. Share-Based Payments

#### Share Option Plans

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

Serica Energy Corporation ("Serica BVI") was previously the holding company of the Group but, following the Reorganisation, is now a wholly owned subsidiary of the Company. Prior to the Reorganisation, Serica BVI issued options under the Serica BVI Option Plan and following the Reorganisation the Company has agreed to issue ordinary shares to holders of Serica BVI Options already awarded upon exercise of such options in place of the shares in Serica BVI to which they would be entitled. There are currently options outstanding under the Serica BVI Option Plan entitling holders to acquire up to an aggregate of 1,900,000 ordinary shares of the Company. No further options will be granted under the Serica BVI option plan.

As at 31 December 2011, the Company has granted 14,387,500 options under the Serica 2005 Option Plan, 10,183,000 of which are currently outstanding. The Serica 2005 Option Plan will govern all future grants of options by the Company to Directors, officers, key employees and certain consultants of the Group.

The Serica 2005 Option Plan is comprised of two parts, the basic share option plan and a part which constitutes an Enterprise Management Incentive Plan ("EMI Plan") under rules set out by the H.M. Revenue & Customs in the United Kingdom. Options granted under the Serica 2005 Option Plan can be granted, at the discretion of the Board, under one or other of the two parts but, apart from certain tax benefits which can accrue to the Company and its UK employees if options are granted under the part relating to the EMI Plan meeting the conditions of that part of the Serica 2005 Option Plan, all other terms under which options can be awarded under either part are substantially identical.

The Directors intend that the maximum number of ordinary shares which may be utilised pursuant to the Serica 2005 Option Plan will not exceed 10% of the issued ordinary shares of the Company from time to time in line with the recommendations of the Association of British Insurers.

5,492,000 of the 10,183,000 options currently outstanding under the Serica 2005 Option Plan are exercisable only if certain performance targets being met. These include the following options subject to market conditions; 117,000 options awarded to executive directors in December 2005, 1,200,000 options awarded to non-executive directors in August 2007, 850,000 options awarded to executive directors in March 2008 and 2,175,000 options awarded to executive directors in January 2010. In October 2008, 750,000 options were awarded to an executive director exercisable only if certain operational performance targets are met. In April 2011, 200,000 options were awarded to an executive director and 200,000 options were awarded to an employee exercisable only if certain operational performance targets are met.

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain market conditions) to estimate the fair value of share options at the date of grant. There are no cash settlement alternatives. The estimated fair value of options is amortised to expense over the options' vesting period. US\$844,000 has been charged to the income statement in continuing operations for the year ended 31 December 2011 (2010 – US\$1,117,000) and a similar amount credited to other reserves. US\$203,000 has been charged to the income statement in discontinued operations for the year ended 31 December 2011 (2010 – US\$114,000). US\$238,000, (2010 – US\$426,000) of the total continuing operations charge was in respect of key management personnel (defined in note 9).

The assumptions made for the options granted during 2005, 2006 and 2007 and March 2008 include a weighted average risk-free interest rate of 6%, no dividend yield and a weighted average expected life of options of three years. The volatility factor of expected market price of 50% used for options granted during 2005 and 2006 was reduced to 40% for options granted in 2007 and March 2008. The assumptions made for the options granted in October 2008 and January 2009 include a weighted average risk-free interest rate of 4%, no dividend yield, a weighted average expected life of options of three years and a volatility factor of expected market price of 50%. The modification of options in December 2009 and November 2010, and the options granted in January 2010 and April 2011 were consistently valued in line with the Company's valuation policy, assumptions made included a weighted average risk-free interest rate of 3%, no dividend yield, a weighted average expected life of three years, and a volatility factor of 50%. The weighted fair value of options granted during the year was £0.11 (2010:£0.29).

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	2011	2011	2010	2010
	Number	WAEP Cdn\$	Number	WAEP Cdn\$
Outstanding as at 1 January	1,900,000	1.46	1,975,000	1.45
Expired during the year	–	–	(75,000)	1.00
Outstanding as at 31 December	1,900,000	1.46	1,900,000	1.46
Exercisable as at 31 December	1,900,000	1.46	1,900,000	1.46
<b>Serica 2005 option plan</b>		<b>£</b>		<b>£</b>
Outstanding as at 1 January	12,864,500	0.78	8,672,000	0.82
Granted during the year	450,000	0.31	4,453,500	0.67
Exercised during the year	(90,000)	0.32	(52,000)	0.32
Cancelled during the year	(3,041,500)	0.81	(209,000)	0.88
Outstanding as at 31 December	10,183,000	0.75	12,864,500	0.78
Exercisable as at 31 December	6,655,833	0.82	6,963,333	0.89

The weighted average share price at the date of exercise for the options exercised in 2011 is £0.40 (2010: £0.90).

The weighted average remaining contractual life of options outstanding as at 31 December 2011 is 5.1 years (2010: 6.1 years).

For the Serica BVI option plan, the exercise price for outstanding options at the 2011 year end ranges from Cdn\$1.00 to Cdn\$2.00 (2010: Cdn\$1.00 to Cdn\$2.00). For the Serica 2005 option plan, the exercise price for outstanding options at the 2011 year end ranges from £0.31 to £1.12 (2010: £0.32 to £1.12).

### 30. Commitments under Operating Leases

#### Operating lease agreements where the Group is lessee

At 31 December 2011 the Group has entered into commercial leases in respect of rental of office premises and office equipment. Future minimum rentals payable under non-cancellable operating leases are as follows:

	Group	2010	Company	2010
	2011	2010	2011	2010
	US\$000	US\$000	US\$000	US\$000
Not later than one year	538	609	–	–
Later than one year and not later than five years	140	678	–	–
	<b>678</b>	<b>1,287</b>	<b>–</b>	<b>–</b>

### 31. Capital Commitments and Contingencies

At 31 December 2011, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation assets amounted to US\$nil million for the Group and US\$nil for the Company (2010: 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. The most significant obligations are in respect of the Company's recently awarded Namibian licence. Under the terms of the licence the Company has a minimum obligation expenditure on exploration work of US\$15.0 million covering the entire initial four year period of the licence, ending in December 2015. Following the farm-out transaction detailed in Note 33, the Company's work programme obligation will be carried by a third party.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK and Ireland.

Following the finalisation of the amalgamation agreement to combine the Central North Sea Blocks 15/21g and 15/21a in January 2012, the venture partners are now committed to drill an appraisal well which is expected to take place in 2H 2012. Serica's estimated 30% share of costs is approximately US\$7.8 million.

The Group has to provide security for a proportion of its future obligations to defined work programmes or other commitments and fulfils this obligation through the Company providing US\$1.0 million of cash collateral included as a financial asset (restricted cash) as at 31 December 2011 (2010: US\$1.4 million).

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.

### 32. Related Party Transactions and Transactions with Directors

There are no related party transactions, or transactions with Directors that require disclosure except for the remuneration items disclosed in the Directors Report and note 9 above. These disclosures include the compensation of key management personnel.

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

### 33. Post Balance Sheet Events

In March 2012, the Company announced that it had agreed to farm-out an interest in its Namibian Licence to BP. Under the transaction, BP will pay to Serica a sum covering Serica's past costs and earn a 30% interest in the Licence by meeting the full cost of an extensive 3D seismic survey. As a result of the farm-out, Serica's interest in the Licence following completion of the seismic survey will be 55%.

Serica also announced in March that it had signed a contract with Polarcus Seismic Limited to acquire up to 4,150 square kilometres of 3D seismic across the Licence. The survey will considerably exceed Serica's obligations for seismic acquisition under the licence terms.

## GROUP PROVED PLUS PROBABLE RESERVES – UNAUDITED

### Group Proved plus Probable Reserves – Unaudited

	Western Europe		Indonesia		Total	Total	Total
	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil & gas mmboe
At 1 January 2011	1.8	26.8	0.6	7.0	2.4	33.8	8.3
Revisions	(0.2)	(3.2)	(0.1)	0.5	(0.3)	(2.7)	(0.7)
Production	-	-	(0.2)	(3.1)	(0.2)	(3.1)	(0.8)
<b>At 31 December 2011</b>	<b>1.6</b>	<b>23.6</b>	<b>0.3</b>	<b>4.4</b>	<b>1.9</b>	<b>28.0</b>	<b>6.8</b>
Proved developed	-	-	0.2	2.8	0.2	2.8	0.8
Proved undeveloped	0.9	13.2	-	-	0.9	13.2	3.1
Probable developed	-	-	0.1	1.6	0.1	1.6	0.4
Probable undeveloped	0.7	10.4	-	-	0.7	10.4	2.5
<b>At 31 December 2011</b>	<b>1.6</b>	<b>23.6</b>	<b>0.3</b>	<b>4.4</b>	<b>1.9</b>	<b>28.0</b>	<b>6.8</b>

Proved and probable reserves are based on independent reports prepared by consultants RPS Energy (for the Kambuna Field in Indonesia) and Netherland, Sewell & Associates (for the Columbus Field in the UK North Sea) in accordance with the reserve definitions of the Canadian Oil and Gas Evaluation Handbook. Gas reserves at 31 December 2011 have been converted to barrels of oil equivalent using a factor of 6.0 bcf per mmboe for Western Europe (Columbus field reserves) on the basis of a nominal gas calorific value of 1,000 BTU per cubic foot and using a factor of 4.8 bcf per mmboe for Indonesia (Kambuna field reserves) on the basis of a nominal gas calorific value of 1,240 BTU per cubic foot.

### Kambuna entitlement reserves

The Group provides for amortisation of costs relating to evaluated properties based on direct interests on an entitlement basis, which incorporates the terms of Production Sharing Contracts in Indonesia. For Kambuna alone, proved plus probable reserves on an entitlement basis totalled 0.97 mmboe as at 31 December 2011 (2010: 1.51 mmboe). This was calculated in 2011 using a Kambuna forecast condensate price assumption of Brent + \$2.33 (2010: Brent + \$2.29) and gas prices in accordance with known contract terms.

With effect from 1 July 2011, the Group changed its accounting estimate basis to provide for the amortisation of costs for Kambuna to a proved reserves entitlement basis. For Kambuna alone, proved reserves on an entitlement basis totalled 0.61 mmboe as at 31 December 2011 (2010: 1.2 mmboe). This was calculated in 2011 using a Kambuna forecast condensate price assumption of Brent + \$2.33 (2010: Brent + \$2.29) and gas prices in accordance with known contract terms.



## GLOSSARY

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

## **CORPORATE INFORMATION**

### **Registered Office**

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### **Main Office**

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London W1U 7EA

### **Nominated Adviser & UK Broker**

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London EC2R 6DA

### **Canadian and Joint UK Broker**

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71 Queen Victoria Street  
London EC4V 6DE

### **Auditor**

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London SE1 2AF

### **Bankers**

Barclays, HSBC, JPMorgan Chase

### **UK Legal Adviser**

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Primrose Street  
London EC2A 2HS

### **Canadian Legal Adviser**

Stikeman Elliott LLP  
Dauntsey House  
4B Frederick's Place  
London EC2R 8AB

### **Company Secretary**

Janette Davies

### **UK Registrar**

Capita Registrars  
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### **Canadian Registrar**

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The Registry  
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### **Listings**

AIM, London  
TSX, Toronto  
Symbol: SQZ

### **Website**

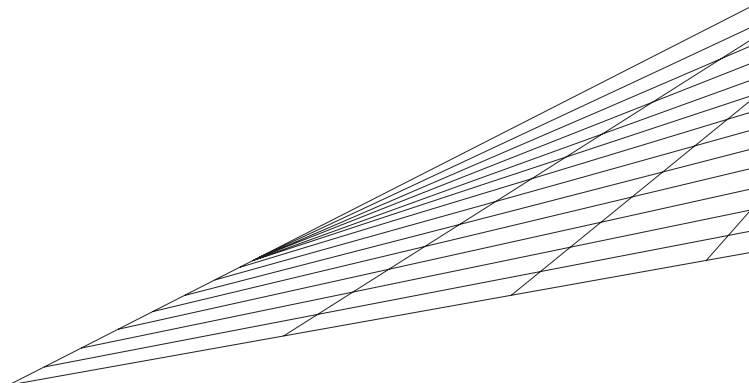
[www.serica-energy.com](http://www.serica-energy.com)

### **Annual General Meeting**

28 June 2012  
College Hill  
The Registry  
Royal Mint Court  
London EC3N 4QN  
United Kingdom

### **Company Number**

5450950



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