

# Serica Energy plc

("Serica" or the "Company")

## Q1 2010 Results

London, 28 May 2010 – Serica Energy plc (TSX Venture & AIM: SQZ) today announces its financial results for the three months ending 31 March 2010. The results and associated Management Discussion and Analysis are included below and copies are available at [www.serica-energy.com](http://www.serica-energy.com) and [www.sedar.com](http://www.sedar.com).

### Financial highlights:

- First quarter revenues of US\$5.3 million
- First quarter gross profit of US\$2.7 million
- Receipt of cash proceeds of US\$100 million from 2009 South East Asia assets sale
- Cash position at 31 March 2010 - US\$62.4 million

### Operational highlights:

- Kambuna field gas sales averaged 22.4 mmscf per day (gross)
- Kambuna field condensate sales averaged 1,833 barrels per day (gross)
- In March daily gas sales of 31 mmscf were achieved
- Farm out of Oates prospect to Premier Oil
- Farm out of Conan prospect to Agora Oil & Gas

### Forward programme:

- Oates exploration well planned for July 2010 (Serica 50%)
- Three wells planned in the Kutai PSC in Indonesia (Serica 30%)
- Revised FDP for Columbus field to be submitted with new export scheme

### Paul Ellis, Chief Executive of Serica commented:

*"The focus in the first quarter was on preparing for the Company's 2010 exploration drilling programme and actively managing our portfolio to mitigate risk. Conan was the first well drilled and, whilst this result was disappointing, the wells still to be drilled in the North Sea and Indonesia this year have the potential to deliver significant value to shareholders.*

*Serica has a sound financial position and an exciting exploration programme. We are confident that it will bring rewards to our shareholders."*

28 May 2010

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The technical information contained in the announcement has been reviewed and approved by Peter Sadler, Chief Operating Officer of Serica Energy plc. Peter Sadler is a qualified Petroleum Engineer (MSc Imperial College, London, 1982) and has been a member of the Society of Petroleum Engineers since 1981.

### 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.

The TSX Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this release.

To receive Company news releases via email, please contact [nick.elwes@collegehill.com](mailto:nick.elwes@collegehill.com) and specify "Serica press releases" in the subject line.

SERICA ENERGY PLC  
FIRST QUARTER 2010 REPORT TO  
SHAREHOLDERS

## **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") contains information up to and including 27 May 2010 and should be read in conjunction with the attached unaudited interim consolidated financial statements for the period ended 31 March 2010. The interim financial statements for the three months ended 31 March 2010 have been prepared by and are the responsibility of the Company's management, and the Company's independent auditors have not performed a review of these financial statements. Serica's activities are centred on the UK and Indonesia, with other interests in Ireland, Morocco and Spain.

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

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").

### **MANAGEMENT OVERVIEW**

During the first quarter 2010 the Company has focused its efforts on preparations for the 2010 exploration drilling programme in the UK and Indonesia, and on increasing production from the Kambuna Field.

In January, the Company reached agreement with Premier Oil plc ("Premier") for the farm-out of Block 22/19c in the UK Central North Sea, and also entered into a farm-out agreement with Agora Oil & Gas (UK) AS ("Agora") relating to Serica's interest in Blocks 113/26b and 113/27c in the East Irish Sea.

These agreements involve Premier funding an exploration well on the Oates prospect to earn a 50% interest in Block 22/19c, and Agora funding 70% of an exploration well on the Conan prospect for a 35% interest in the Blocks 113/26b and 113/27c. This has significantly reduced the funding requirement for Serica's 2010 UK exploration drilling programme and is a key part of the Company's exploration strategy.

Serica secured the use of the Ensco 80 jack-up drilling rig to drill the Conan exploration well which spudded on 10 May. Premier, the licence operator of Block 22/19c, has contracted the Ensco 100 jack-up drilling rig for the Oates prospect exploration well which is due to be drilled in July 2010. On 27 May the Company announced that the Conan well had been plugged and abandoned without encountering hydrocarbons.

In January the Company received proceeds of US\$99.7 million (including interest) due from the disposal of certain interests in South East Asia to KrisEnergy Limited (KrisEnergy) which was booked in December 2009.

### **Field Appraisal and Development**

#### **Indonesia**

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

The Glagah Kambuna Technical Assistance Contract ("TAC"), operated by Salamander Energy, covers an area of approximately 380 square kilometres and lies offshore North Sumatra. In December 2009 the Company sold a 25% interest in the Kambuna TAC to KrisEnergy and Serica now holds an interest of 25%.

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") are approximately US\$5.40 and \$7.00 respectively, escalated at 3% per annum.

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

The start of production from the Kambuna field in Q3 2009 was a major achievement that provided the Company with its first significant production revenue. However, both of our gas buyers, PLN and Pertiwi, have experienced difficulty in meeting their commitments to take the amounts of gas for which they have contracted. As a result, field production and sales to date have been lower than expected.

In Q1 2010 gross Kambuna sales were 2,016 million standard cubic feet of gas and 165,000 barrels of oil, equivalent to average daily sales for the quarter of 22.4 mmscf and 1,833 bbl. In March 2010, average daily gas sales of 31 mmscf were achieved, the highest monthly figure to date. Once the permanent gas processing facilities are commissioned, total sales gas rates of approximately 50 mmscfd should be achievable.

Under the Take or Pay provisions of the gas sales contracts, at the end of each 12 month sales period the buyers are required to pay for at least 90% of any gas contracted but not taken, subject to exceptions for certain circumstances that may be outside of their control. In subsequent periods, buyers may nominate quantities in excess of the contract rates in order to recover the gas for which they have already paid.

The gas sales contract with PLN provides for an average contract quantity of 35 mmscfd for the first twelve months and it has already been demonstrated that rates in excess of this can be delivered. However, following the six-week unplanned shut-down of PLN's generating plant in 2009 there have been further problems with the PLN plant this year and additional downtime due to repairs to one of the gas transmission lines used by PLN. It is therefore unlikely that the contracted sales to PLN will be achieved in the twelve months to 31 August 2010 and it is expected that a claim by the gas sellers will be made under the Take or Pay provisions.

Gas sales to the second buyer, Pertiwi, commenced in the first quarter 2010 but have not yet achieved the contract rate of 12 mmscfd, partially due to the same problems as experienced by PLN.

## **United Kingdom**

### Columbus Field - Blocks 23/16f – Central North Sea

Block 23/16f covers an area of approximately 52 square kilometres in the Central North Sea and contains the undeveloped Columbus field. Serica operates the block and holds a 50% interest.

In December 2006 Serica drilled the 23/16f-11 Columbus discovery well and followed this up in 2007 with two successful appraisal wells, 23/16f-12 and 23/16f-12z. Serica then submitted a draft Field Development Programme ("FDP") for the Columbus field to the UK government. This FDP envisaged offtake via a subsea tie-back to the BP operated facilities of the Eastern Trough Area Project ("ETAP").

In the first quarter of 2009, in the adjacent Block 23/21, Lomond field operator BG Group ("BG") completed drilling a total of four penetrations of Forties Formation reservoir sands from a single surface location at 23/21-7, two of which encountered sands with similar reservoir pressures to that at Columbus.

Working together with BG and Dana Petroleum, operator of the Barbara-Phyllis fields, a development scheme involving a minimal-facilities platform linked by a bridge to the Lomond platform is being designed to allow multiple separate fields to be produced through the Lomond facilities (the "Bridge Linked Platform" or "BLP"). The group is planning to enter into Front End Engineering and Design ("FEED") for the BLP, on a cooperative basis, in Q2 2010. Serica is also targeting the start of FEED for the facilities specific to the development of the Columbus field, on behalf of the 23/16f and 23/21 partnerships, in Q2 2010. It is expected that a revised FDP for the production of Columbus via the BLP will be submitted to the UK government during 2010 and that development sanction will be achieved later this year.

## **Exploration**

### ***United Kingdom***

#### East Irish Sea - Blocks 113/26b and 113/27c

Serica was awarded a 100% interest in Blocks 113/26b and 113/27c in the UK 24th Offshore Licensing Round in 2007 and is the operator. The blocks cover an area of approximately 145 square kilometres in the East Irish Sea and lie immediately to the north of the Millom field and within ten kilometres of the Morecambe field.

Serica identified two Sherwood sand gas prospects on the blocks, Conan and Doyle. The Conan prospect was apparent from a large seismic amplitude anomaly similar to amplitude anomalies associated with existing East Irish Sea gas discoveries.

In January 2010 Serica reached agreement with Agora Oil & Gas (UK) AS ("Agora") for the farm-out of the blocks. Under the term of the farm-out agreement, Agora is funding 70% of the Conan exploration well and will earn a 35% interest in the blocks. Serica retains a 65% interest and operatorship of the blocks.

Serica secured the use of the Ensco 80 jack-up drilling rig to drill the Conan exploration well and drilling commenced in May. On 27 May the Company announced that drilling had been completed and the well was being plugged and abandoned without discovering hydrocarbons.

#### Central North Sea - Block 22/19c

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

Block 22/19c is located approximately 20 kilometres to the west of Serica's Columbus field and contains two Palaeocene Forties Formation prospects known as Oates and Bowers. The Oates prospect is a stratigraphic trap that exhibits a number of similarities to the Columbus discovery.

In January 2010 Serica reached agreement with Premier Oil plc ("Premier") for the farm-out of Block 22/19c. An exploration well on the Oates prospect, funded by Premier, is planned to be drilled to a depth of approximately 3,100 metres. In return for this funding, Premier will earn a 50% interest in Block 22/19c and has assumed the role of operator. Serica retains a 50% interest.

Premier has secured the Ensco 100 jack-up drilling rig for the Oates prospect exploration well and mobilisation of the drilling rig to the location is expected in July 2010. The approximate duration of the well is 30 days.

## ***Indonesia***

### Kutai PSC

Serica is the operator of the Kutai Production Sharing Contract ("PSC") and currently holds a 30% interest. The PSC is divided into five blocks located in the prolific Mahakam River delta both onshore and offshore East Kalimantan, adjacent to several giant fields.

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

### East Seruway PSC

Serica is the operator and holds a 100% interest in the East Seruway PSC offshore North Sumatra, Indonesia, adjacent to the Glagah Kambuna TAC. The PSC covers an area of approximately 5,864 sq km (2,264 sq miles) which is largely unexplored.

Serica has a detailed regional understanding of the offshore North Sumatra Basin having been a PSC operator there since 2003. In Q1 2010 the Company completed the acquisition of 2,100 line kilometres of 2D seismic data in the PSC to define further the exploration potential prior to drilling an exploration well in the block, likely to be undertaken in 2011.

## ***Ireland***

### Slyne Basin – Licence FEL 01/06 - Blocks 27/4, 27/5 (west) and 27/9

Serica is the operator and holds a 50% interest in Licence FEL 01/06 (Blocks 27/4, 27/5 (west) and 27/9), which covers an area of 611 square kilometres in the Slyne Basin off the west coast of Ireland and lies about 40 kilometres south of the Corrib gas field.

The oil discovery made by Serica in the Bandon exploration well 27/4-1, drilled in April 2009, is unlikely to be commercial but provided clear evidence of the presence of oil in this part of the Slyne Basin. Serica has now re-evaluated the area, using the new information provided by the well, and expects to drill one or more wells in the blocks in 2011 to test the possible presence of commercial oil deposits.

### Rockall Basin

Serica is the licence operator and holds a 100% working interest in Licence FEL 1/09 covering Blocks 5/17, 5/18, 5/22, 5/23, 5/27 and 5/28 in the northeastern part of the Rockall Basin off the west coast of Ireland. The six blocks cover a total area of 993 square kilometres.

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

In 2009 Serica acquired several new 2D long-offset seismic lines across the Muckish structure, a large exploration prospect already identified from existing 3D seismic data, in order to evaluate its potential to contain hydrocarbons. The data is still under

evaluation. The Muckish prospect covers an area of approximately 30 square kilometers in a water depth of 1,450 metres.

### **Morocco**

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

Sidi Moussa and Fom Draa are covered by over 5,200 square kilometres of modern 3D seismic data and over 2,000 kilometres of 2D seismic data. A drill or drop decision is required to be made at the end of the initial phases of the Agreements. Technical studies to reprocess the extensive 3D seismic database are underway.

### **Spain**

The Company holds a 75% interest and operatorship in four exploration Permits onshore northern Spain, where several gas prospects have been identified by Serica and the Company is currently seeking a farm-in partner.

### **Forward Programme**

During 2010 Serica has an exploration programme of wells that could be of great significance to the Company. The Conan prospect in the East Irish Sea has failed to live up to its promise but the Oates prospect in UK Block 22/19c in the Central North Sea west of the Columbus field and the planned wells in the Kutai PSC in Indonesia continue to hold considerable potential.

With the Kambuna field achieving first production in 2009, the Company's present attention is focused on reaching the present annual contract rate of 40 mmscfd. For the Columbus field, design work and submission of a revised FDP to the UK government this year is aimed at achieving a project sanction decision in 4Q 2010, enabling first gas in early 2013.

Serica continues to manage its financial position and risk profile against a challenging market backdrop. In addition to the cash proceeds received from the asset disposals, further capital was raised in the first quarter through the farm-out of the Conan and Oates prospects. We also intend to add further exploration acreage in areas where our knowledge and expertise can add value and have submitted applications for licences in the UK under the UK 26<sup>th</sup> Round of Offshore Licensing.



## FINANCIAL REVIEW

A detailed review of the Q1 2010 results of operations and other financial information is set out below.

### Results of Operations

	2010	2009	2009	2009	2009
	Q1	Q4	Q3	Q2	Q1
	US\$000	US\$000	US\$000	US\$000	US\$000
<i>Continuing operations</i>					
Sales revenue	5,334	3,476	4,167	-	-
Cost of sales	(2,682)	(4,204)	(2,172)	-	-
Gross profit/(loss)	2,652	(728)	1,995	-	-
Expenses:					
Administrative expenses	(1,847)	(2,013)	(1,387)	(1,615)	(1,624)
Foreign exchange gain/(loss)	80	21	(64)	250	21
Pre-licence costs	(761)	(387)	(88)	(243)	(183)
Asset write offs	-	(1,156)	(66)	(221)	(7,147)
Share-based payments	(501)	(966)	(206)	(217)	(298)
Depreciation	(24)	(30)	(30)	(29)	(29)
Operating loss before net finance revenue and taxation	(401)	(5,259)	154	(2,075)	(9,260)
Profit on disposal	-	26,864	-	-	-
Finance revenue	130	596	7	11	27
Finance costs	(1,267)	(1,724)	(884)	(439)	(707)
(Loss)/profit before taxation	(1,538)	20,477	(723)	(2,503)	(9,940)
Taxation charge	(1,202)	(1,329)	(202)	-	-
(Loss)/profit for the period	(2,740)	19,148	(925)	(2,503)	(9,940)
Basic and diluted loss per share	(0.02)	N/A	(0.01)	(0.01)	(0.06)
Basic earnings per share	N/A	0.11	N/A	N/A	N/A
Diluted earnings per share	N/A	0.11	N/A	N/A	N/A

Serica generated a gross profit of US\$2.7 million for the three months ended 31 March 2010 ("Q1 2010") from its retained 25% interest in the Kambuna Field.

Revenue is recognised on an entitlement basis for the Company's net working field interest. Revenues for Q3 and Q4 2009 were generated from a 50% field interest until mid December when a 25% interest in the asset was disposed of, together with a 24.6% interest in the Kutai PSC and the Company's entire 33.3% interest in Block 06/94, Vietnam to KrisEnergy Limited for consideration of US\$104.2 million (including interim period and working capital adjustments).

In Q1 2010, gross Kambuna field gas production averaged 22.4 mmscf per day (Q4 2009: 6.3 mmscf) together with average condensate production of 1,982 barrels per day (Q4 2009: 637 bpd). Field commissioning work continued through the period.

The Q1 2010 gas production was sold at prices averaging US\$5.48 per mscf and generated US\$2.6 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 Q1 2010 earned US\$2.7 million of revenue net to Serica.

Cost of sales were driven by production from the Kambuna field and totalled US\$2.7 million in Q1 2010. The charge comprised operating costs of US\$1.4 million and non cash depletion and amortisation of US\$1.4 million, partially offset by a condensate stock adjustments credit of US\$0.1 million. The operating costs of US\$1.4 million include temporary Early Production Facility charges of US\$0.6 million which are currently being incurred until the completion of the permanent Onshore Receiving Facility in Q3 2010.

The Company generated a loss before tax of US\$1.5 million for Q1 2010 compared to a loss before tax of US\$9.9 million for the three months ended 31 March 2009 ("Q1 2009").

Administrative expenses of US\$1.8 million for Q1 2010 increased from US\$1.6 million for the same period last year. The Company continues to manage carefully its financial resources and the increase reflects a rise in the US\$ equivalent of those general administrative costs incurred in £ sterling, which was an average 10% stronger against the US\$ in Q1 2010 compared to Q1 2009.

The impact of foreign exchange was not significant in Q1 2010 or 2009.

Pre-licence costs include direct cost and allocated general administrative cost incurred on oil and gas interests prior to the award of licences, concessions or exploration rights. The expense of US\$0.8 million for Q1 2010 increased from the Q1 2009 charge of US\$0.2 million due to the significant work undertaken during the recent quarter on the 26<sup>th</sup> Licencing Round in the UK.

There were no asset write offs in Q1 2010. Asset write offs in Q1 2009 of US\$7.1 million related to the costs incurred in the Q1 2009 period on the completion of the Chablis appraisal well. Other Q4 2009 write offs included the costs of relinquished licences and sundry items.

Share-based payment costs of US\$0.5 million in Q1 2010 reflected share options granted and compare with US\$0.3 million for Q1 2009 and US\$1.0 million for Q4 2009. Further share options granted in January 2010 have generated incremental charges from Q1 2010. However, the Q4 2009 and Q1 2010 charges included expenses of US\$0.8 million and US\$0.2 million respectively arising from the extension of certain existing share options in December 2009.

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'.

The Q4 2009 profit on disposal of US\$26.9 million was generated in December 2009 when the Company disposed of a package of assets in South East Asia (comprising a 25% interest in the Kambuna TAC, a 24.6% interest in the Kutai PSC and the Company's entire 33.3% interest in the Block 06/94 PSC, Vietnam) to KrisEnergy Limited.

Finance revenue comprising interest income of US\$0.1 million for Q1 2010 compares with US\$0.03 million for Q1 2009 and US\$0.6 million for Q4 2009. The significant majority of finance revenue earned in Q1 2010 and Q4 2009 arose from interest earned on the consideration from the South East Asia asset disposal noted above. Bank deposit interest income was negligible in 2009 due to the significant reduction in average interest rate yields available since 2H 2008 and a reduction in average cash deposit balances held by the Company in the year.

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

The Q1 2010 taxation charge of US\$1.2 million reflects current tax liabilities of US\$0.2 million arising from income in Indonesia and a deferred tax charge of US\$1.0 million arising from Indonesian operations. Expenditures in prior and current periods have reduced any potential current income tax expense arising for Q1 2009 to nil.

The net loss per share of US\$0.02 for Q1 2010 compares to a net loss per share of US\$0.06 for Q1 2009.

### Summary of Quarterly Results

Quarter ended:	2010 31 Mar US\$000	2009 31 Dec US\$000	2009 30 Sep US\$000	2009 30 Jun US\$000	2009 31 Mar US\$000	2008 31 Dec US\$000	2008 30 Sept US\$000	2008 30 Jun US\$000
Sales revenue	5,334	3,476	4,167	-	-	-	-	-
(Loss)/profit for the quarter	(2,740)	19,148	(925)	(2,503)	(9,940)	(26,886)	33,516	(4,275)
Basic and diluted loss per share US\$	(0.02)	-	(0.01)	(0.01)	(0.06)	(0.16)	-	(0.02)
Basic and diluted earnings per share US\$	-	0.11	-	-	-	-	0.19	-

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

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

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

The fourth quarter 2008 loss includes asset write offs of US\$23.6 million attributed to the Chablis, Oak and Spain assets.

The third quarter 2008 profit includes a profit of US\$36.6 million generated on the disposal of a 15% interest in the Kambuna field.

## Working Capital, Liquidity and Capital Resources

### Current Assets and Liabilities

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

	31 March 2010 US\$000	31 December 2009 US\$000	31 March 2009 US\$000
Current assets:			
Inventories	2,930	2,855	4,612
Trade and other receivables	9,387	106,381	8,346
Financial assets	-	1,500	-
Cash and cash equivalents	62,429	18,412	41,555
Total Current assets	74,746	129,148	54,513
Less Current liabilities:			
Trade and other payables	(7,558)	(9,622)	(22,513)
Financial liabilities	-	(46,447)	(44,127)
Total Current liabilities	(7,558)	(56,069)	(66,640)
Net Current assets/(liabilities)	67,188	73,079	(12,127)

At 31 March 2010, the Company had net current assets of US\$67.2 million which comprised current assets of US\$74.7 million less current liabilities of US\$7.5 million, giving an overall decrease in working capital of US\$5.9 million in the three month period.

Inventories remained at US\$2.9 million over the Q1 2010 period. The decrease from US\$4.6 million at Q1 2009 to US\$2.9 million occurred as materials were utilised and the Company reduced its working interest in the joint venture balances held.

Trade and other receivables at 31 March 2010 totalled US\$9.4 million, which included US\$4.8 million trade debtors from gas and condensate sales in February and March. Other items included recoverable amounts from partners in joint venture operations in the UK and Indonesia, sundry UK and Indonesian working capital balances, and prepayments. All trade debtors outstanding at Q1 2010 were received in Q2 2010. The significant decrease from the 2009 year end debtor balance of US\$106.4 million is largely caused by the receipt of cash proceeds in January 2010 from the disposal of assets to KrisEnergy Limited in December 2009.

Cash and cash equivalents increased from US\$18.4 million to US\$62.4 million in the quarter. In Q1 2010 the Company received US\$99.7 million (including interest) in outstanding consideration from the 2009 South East Asia asset disposals to KrisEnergy Limited. A significant proportion of this cash inflow was used to repay US\$47.6 million of drawings on its loan facility. Other cost was incurred on exploration work across the portfolio in South East Asia and the UK and Ireland, together with ongoing administrative costs, operational expenses and corporate activity.

Financial assets at 31 December 2009 represented US\$1.5 million of restricted cash deposits which were utilised during Q1 2010.

Trade and other payables of US\$7.6 million at 31 March 2010 chiefly include significant trade creditors and accruals from the completion of the permanent production facilities of the Kambuna field, and from the ongoing Indonesian and UK exploration programmes. Other smaller items comprised sundry creditors and accruals for administrative expenses and other corporate costs. The decrease from March 2009 is largely due to a reduction in Kambuna development expenditure as the project approaches completion and the reduced working interest share of project costs of 25%.

Financial liabilities comprise drawings under the senior debt facility and are disclosed net of the unamortised portion of allocated issue costs. The balance classified as short term as at 31 December 2009 was repaid in January 2010. Financial liabilities as at 31 March 2010 are classified as long term.

### Long-Term Assets and Liabilities

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

	31 March 2010 US\$000	31 December 2009 US\$000	31 March 2009 US\$000
Exploration & evaluation assets	69,564	66,030	71,816
Property, plant and equipment	53,690	53,864	88,865
Goodwill	148	148	295
Financial assets	-	-	1,500
Long-term other receivables	5,650	5,639	5,791
Financial liabilities	(23,119)	(24,371)	-
Deferred income tax liabilities	(2,406)	(1,435)	(295)

During Q1 2010, total investments in exploration and evaluation assets ("E&E assets") increased from US\$66.0 million to US\$69.6 million. These amounts exclude the Kambuna development and production costs which are classified as property, plant and equipment. The net US\$3.6 million increase consists of US\$4.2 million of additions, less back costs received as part of the UK Conan farm-out.

The US\$4.2 million of additions were incurred on the following assets:

In Indonesia, US\$3.0 million was incurred on a 2D seismic survey, exploration work and G&A on the East Seruway concession in Indonesia and US\$0.6 million on Kutai.

In the UK & Western Europe, US\$0.6 million of expenditure was incurred on UK exploration work, G&A and the Columbus FDP. The Company's share of drilling costs on the Oates prospect in Block 22/19c, and Conan prospect in Blocks 113/26b and 113/27c will largely be borne by third parties following the farm-outs announced in Q1 2010.

Property, plant and equipment comprise the net book amount of the capital expenditure on the Company's 25% interest in the Kambuna development. During Q1 2010, the Company's net book amount for its Kambuna interest decreased from US\$53.8 million to US\$53.6 million. This US\$0.2 million decrease comprises depletion charges of US\$1.4 million arising from the production of gas and condensate in the quarter less US\$1.2 million of capex additions. The property, plant and equipment also includes immaterial balances of US\$0.1 million for office fixtures and fittings and computer equipment.

Goodwill, representing the difference between the price paid on acquisitions and the fair value applied to individual assets, decreased by US\$0.1 million from Q1 2009 following the partial disposal of the Kambuna interest.

Financial assets as at 31 March 2009 represented US\$1.5 million of restricted cash deposits and were classified as a current asset in Q4 2009.

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

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

The deferred income tax liability of US\$2.4 million arises in respect of the Company's retained Kambuna asset interest in Indonesia.

### Shareholders' Equity

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

	31 March 2010 US\$000	31 December 2009 US\$000	31 March 2009 US\$000
Total share capital	207,633	207,633	207,633
Other reserves	17,698	17,197	15,808
Accumulated deficit	(54,616)	(51,876)	(67,596)

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

Other reserves mainly include amounts credited in respect of cumulative share-based payment charges. The increase in other reserves from US\$17.2 million to US\$17.7 million reflects a credit to equity in respect of share-based payment charges in Q1 2010.

### Capital Resources

#### *Available financing resources and debt facility*

Serica's prime focus has been to deliver value through exploration success. To-date this has given rise to the Kambuna gas field development in Indonesia, with first production achieved in August 2009, and the Columbus gas field in the UK North Sea, for which development plans have been submitted.

Typically exploration activities are equity financed whilst field development costs are principally debt financed. In the current business environment, access to new equity and debt remains uncertain. Consequently, the Company has given priority to the careful management of existing financial resources. The receipt of Kambuna revenues complements the Company's exploration activities with producing interests and reweights the balance from investment to income generation.

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

In January 2010 the Company received the proceeds from the disposal of assets to Kris Energy and repaid US\$47.6 million of its debt, and at 31 March 2010, the Company held cash and cash equivalents of US\$62.4 million. As of 27 May 2010, the Company's debt facility was US\$25 million drawn out of a total facility of US\$100 million, leaving a net cash position of approximately US\$36 million.

Overall, the receipt of cash from the 2009 disposal of assets in South East Asia, the revenues from the retained 25% Kambuna interest and the control that the Company can exert over the timing and cost of its exploration programmes both through operatorship and through farm-outs leave it well placed to manage its commitments. Serica intends to continue taking a prudent approach to financial management so as to retain the strength that it has built to-date.

### *Lease commitments*

At 31 March 2010, Serica had no capital lease obligations. At that date, the Company had commitments to future minimum payments under operating leases in respect of rental office premises, office equipment and motor vehicles for each of the following period/years as follows:

	US\$000
31 December 2010	85
31 December 2011	-

### *Capital expenditure commitments, obligations and plans*

The Company's most significant planned capital expenditure commitments for 2010 are those required to fund the completion of the permanent production facilities for the Kambuna field. As at 31 March 2010, the Company's share of expected outstanding capital costs in respect of its 25% retained interest on the project totalled approximately US\$4.9 million. These expected costs include amounts contracted for but not provided as at 31 March 2010.

In April 2010 the Company contracted the Ensco 80 jack-up drilling rig for an exploration well on the Conan prospect in the UK East Irish Sea Blocks 113/26b and 113/27c. The gross obligation under the contract is for an estimated 21 days (excluding mobilisation and demobilisation) which equates to a value of US\$1,890,000. Following the farm-out of a 35% interest in the Blocks 113/26b and 113/27c to Agora, and under current paying interests, Serica's net share of these costs is expected to be approximately US\$567,000.

In addition, the Company also has obligations to carry out defined work programmes on its oil and gas properties, under the terms of the award of rights to these properties, over the next two period/years as follows:

Period ending 31 December 2010	US\$10,200,000
Year ending 31 December 2011	US\$1,235,000

These obligations reflect the Company's share of the defined work programmes and were not formally contracted at 31 March 2010. The Company is not obliged to meet other joint venture partner shares of these programmes. The most significant obligations are in respect of the Kutai PSC in South East Asia and drilling is expected to commence in 2010. Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK and South East Asia.

### Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet transactions or arrangements.

### Critical Accounting Estimates

The Company's significant accounting policies are detailed in note 2 to the attached interim financial statements. International Financial Reporting Standards have been adopted. The costs of exploring for and developing petroleum and natural gas reserves are capitalised and the capitalisation and any write off of E&E assets, or depletion of producing assets necessarily involve certain judgments with regard to whether the asset will ultimately prove to be recoverable. Key sources of estimation uncertainty that impact the Company relate to assessment of commercial reserves and the impairment of the Company's assets. Oil and gas properties are subject to periodic review for impairment whilst goodwill is reviewed at least annually. Impairment considerations necessarily involve certain judgements as to whether E&E assets will lead to commercial discoveries and whether future field revenues will be sufficient to cover capitalised costs. Recoverable amounts can be determined based

upon risked potential, or where relevant, discovered oil and gas reserves. In each case, recoverable amount calculations are based upon estimations and management assumptions about future outcomes, product prices and performance. Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment charge is required.

### Financial Instruments

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

Serica has exposure to interest rate fluctuations on its cash deposits and its bank loans; given the level of expenditure plans over 2010/11 this is managed in the short-term through selecting treasury deposit periods of one to three months. Treasury counterparty credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.

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

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

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



## Share Options

As at 31 March 2010, the following director and employee share options were outstanding: -

<b>Expiry Date (i)</b>	<b>Amount</b>	<b>Exercise cost Cdn\$</b>
December 2014	275,000	275,000
January 2015	600,000	600,000
June 2015	1,100,000	1,980,000

  

		<b>Exercise cost £</b>
November 2010 (ii)	437,000	423,890
August 2012	1,200,000	1,182,000
October 2013	750,000	300,000
January 2014	708,000	226,560
November 2015	124,000	120,280
January 2016	1,275,000	1,319,625
May 2016	180,000	172,800
June 2016	270,000	259,200
November 2016	120,000	134,400
January 2017	745,000	759,900
May 2017	405,000	421,200
March 2018	1,608,000	1,206,000
March 2018	850,000	697,000
January 2020	4,203,500	2,858,380

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

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

In April 2010, 52,000 share options were exercised by employees other than directors at a price of £0.32.

## Outstanding Share Capital

As at 27 May 2010, the Company had 176,570,311 ordinary shares issued and outstanding.

## Business Risk and Uncertainties

Serica, like all companies in the oil and gas industry, operates in an environment subject to inherent risks. Many of these risks are beyond the ability of a company to control, particularly those associated with the exploring for and developing of economic quantities of hydrocarbons. Principal risks can be classified into four main categories: operational, commercial, regulatory and financial.

Operational risks include production interruptions, well or reservoir performance, spillage and pollution, drilling complications, delays and cost over-run on major projects, well blow-outs, failure to encounter hydrocarbons, construction risks, equipment failure and accidents. Commercial risks include access to markets, access to infrastructure, volatile commodity prices and counterparty risks. Regulatory risks include governmental regulations, licence compliance and environmental risks. Financial risks include access to equity funding and credit.

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

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

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

The Company's financial statements have been prepared with the assumption that the Company will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. During the three month period ended 31 March 2010 the Company generated a loss before tax of US\$1.5 million but expects to earn increased revenues from the Kambuna Field once full field production is achieved. At 31 March 2010 the Company had US\$39.3 million of net cash.

The Company intends to utilise its existing cash balances and future operating cash inflows, together with the currently available portion of the US\$100 million senior secured debt facility, to fund the immediate needs of its investment programme and ongoing operations. Further details of the Company's financial resources and debt facility are given above in the Financial Review in this MD&A.

### **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.

### **Additional Information**

Additional information relating to Serica 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

Paul Ellis  
Chief Executive Officer

Christopher Hearne  
Finance Director

28 May 2010

## **Forward Looking Statements**

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

## GLOSSARY

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

**Serica Energy plc****Group Income Statement**

For the period ended 31 March

Unaudited		Three months ended 31 March 2010 US\$000	Three months ended 31 March 2009 US\$000
	Notes		
<b>Sales revenue</b>		5,334	-
Cost of sales		(2,682)	-
<b>Gross profit</b>		<hr/> 2,652	-
Administrative expenses		(1,847)	(1,624)
Foreign exchange gain		80	21
Pre-licence costs		(761)	(183)
Asset write offs		-	(7,147)
Share-based payments		(501)	(298)
Depreciation & depletion		(24)	(29)
<b>Operating loss before finance revenue and tax</b>		<hr/> (401)	(9,260)
Finance revenue		130	27
Finance costs		(1,267)	(707)
<b>Loss before taxation</b>		<hr/> (1,538)	(9,940)
Taxation charge for the period	9	(1,202)	-
<b>Loss for the period</b>		<hr/> (2,740)	(9,940)
<b>Loss per ordinary share (EPS)</b>			
Basic and diluted EPS on loss for the period (US\$)		(0.02)	(0.06)

**Total Statement of Comprehensive Income**

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

**Serica Energy plc**  
**Consolidated Balance Sheet**

		31 March 2010 US\$000 (Unaudited)	31 Dec 2009 US\$000 (Audited)	31 March 2009 US\$000 (Unaudited)
<b>Non-current assets</b>				
Exploration & evaluation assets	4	69,564	66,030	71,816
Property, plant and equipment	5	53,690	53,864	88,865
Goodwill		148	148	295
Financial assets		-	-	1,500
Other receivables		5,650	5,639	5,791
		<u>129,052</u>	<u>125,681</u>	<u>168,267</u>
<b>Current assets</b>				
Inventories		2,930	2,855	4,612
Trade and other receivables		9,387	106,381	8,346
Financial assets		-	1,500	-
Cash and cash equivalents		62,429	18,412	41,555
		<u>74,746</u>	<u>129,148</u>	<u>54,513</u>
<b>TOTAL ASSETS</b>		<u>203,798</u>	<u>254,829</u>	<u>222,780</u>
<b>Current liabilities</b>				
Trade and other payables		(7,558)	(9,622)	(22,513)
Financial liabilities		-	(46,447)	(44,127)
<b>Non-current liabilities</b>				
Financial liabilities		(23,119)	(24,371)	-
Deferred income tax liabilities		(2,406)	(1,435)	(295)
<b>TOTAL LIABILITIES</b>		<u>(33,083)</u>	<u>(81,875)</u>	<u>(66,935)</u>
<b>NET ASSETS</b>		<u>170,715</u>	<u>172,954</u>	<u>155,845</u>
Share capital	7	207,633	207,633	207,633
Other reserves		17,698	17,197	15,808
Accumulated deficit		(54,616)	(51,876)	(67,596)
<b>TOTAL EQUITY</b>		<u>170,715</u>	<u>172,954</u>	<u>155,845</u>

**Serica Energy plc**  
**Statement of Changes in Equity**  
For the period ended 31 March 2010

**Group**

	Share capital US\$000	Other reserves US\$000	Deficit US\$000	Total US\$000
At 1 January 2010 (audited)	207,633	17,197	(51,876)	172,954
Share-based payments	-	501	-	501
Loss for the period	-	-	(2,740)	(2,740)
At 31 March 2010 (unaudited)	<u>207,633</u>	<u>17,698</u>	<u>(54,616)</u>	<u>170,715</u>

For the year ended 31 December 2009

**Group**

	Share capital US\$000	Other reserves US\$000	Deficit US\$000	Total US\$000
At 1 January 2009 (audited)	207,633	15,510	(57,656)	165,487
Share-based payments	-	298	-	298
Loss for the period	-	-	(9,940)	(9,940)
At 31 March 2009 (unaudited)	<u>207,633</u>	<u>15,808</u>	<u>(67,596)</u>	<u>155,845</u>
Share-based payments	-	217	-	217
Loss for the period	-	-	(2,503)	(2,503)
At 30 June 2009 (unaudited)	<u>207,633</u>	<u>16,025</u>	<u>(70,099)</u>	<u>153,559</u>
Share-based payments	-	206	-	206
Loss for the period	-	-	(925)	(925)
At 30 September 2009 (unaudited)	<u>207,633</u>	<u>16,231</u>	<u>(71,024)</u>	<u>152,840</u>
Share-based payments	-	966	-	966
Profit for the period	-	-	19,148	19,148
At 31 December 2009 (audited)	<u>207,633</u>	<u>17,197</u>	<u>(51,876)</u>	<u>172,954</u>

**Serica Energy plc**  
**Consolidated Cash Flow Statement**  
For the period ended 31 March

Unaudited	Three months ended 31 March 2010 US\$000	Three months ended 31 March 2009 US\$000
Cash flows from operating activities:		
Operating loss	(401)	(9,260)
Adjustments for:		
Depreciation	24	29
Depletion and amortisation	1,392	-
Asset write offs	-	7,147
Share-based payments	501	298
(Increase) in receivables	(2,186)	(3,123)
(Increase)/decrease in inventories	(75)	6
(Decrease)/increase in payables	(2,064)	6,654
Cash (out)/inflow from operations	(2,809)	1,751
Taxes received	-	-
<b>Net cash (out)/inflow from operations</b>	<b>(2,809)</b>	<b>1,751</b>
Cash flows from investing activities:		
Purchase of property, plant & equipment	(1,242)	(20,380)
Purchase of E&E assets	(3,534)	(9,308)
Proceeds from disposals	99,150	-
Interest received	694	27
<b>Net cash in/(outflow) from investing</b>	<b>95,068</b>	<b>(29,661)</b>
Cash proceeds from financing activities:		
Repayments of loans and borrowings	(47,550)	-
Proceeds from loans and borrowings	-	12,821
Finance costs paid	(692)	(178)
<b>Net cash from financing activities</b>	<b>(48,242)</b>	<b>12,643</b>
<b>Cash and cash equivalents</b>		
Net increase/(decrease) in period	44,017	(15,267)
Amount at start of period	18,412	56,822
Amount at end of period	62,429	41,555



## **Serica Energy plc**

### **Notes to the Unaudited Consolidated Financial Statements**

#### **1. Corporate information**

The interim condensed consolidated financial statements of the Group for the three months ended 31 March 2010 were authorised for issue in accordance with a resolution of the directors on 27 May 2010.

Serica Energy plc is a public limited company incorporated and domiciled in England & Wales. The Company's ordinary shares are traded on AIM and the TSX Venture Exchange. The principal activity of the Company is to identify, acquire and exploit oil and gas reserves.

#### **2. Basis of preparation and accounting policies**

##### **Basis of Preparation**

The interim condensed consolidated financial statements for the three months ended 31 March 2010 have been prepared in accordance with IAS 34 Interim Financial Reporting.

These unaudited interim consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards following the same accounting policies and methods of computation as the consolidated financial statements for the year ended 31 December 2009. These unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the consolidated financial statements and the notes thereto in the Serica Energy plc annual report for the year ended 31 December 2009.

##### **Going Concern**

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review in the Q1 2010 Management's Discussion and Analysis. As at 31 March 2010 the Group had US\$39.3 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.

After making enquiries, 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 interim condensed financial statements.

##### **Significant accounting policies**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of the following new standards and interpretations, noted below,

<b>International Accounting Standards (IAS / IFRSs)</b>		<b>Effective date</b>
IFRS 2	Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 3	Business Combinations (Revised)	1 July 2009
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009
IAS 39	Eligible Hedged Items	1 July 2009
IFRIC 17	Distributions of Non-cash assets to owners	1 July 2009
IFRIC 18	Transfer of Assets from Customers	1 July 2009

The adoption of these did not affect the Group's results of operations or financial position.

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

### **Basis of Consolidation**

The consolidated financial statements include the accounts of 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 Kutei B.V., Serica Glagah Kambuna B.V., Serica East Seruway B.V., Serica Foun Draa B.V., Serica Sidi Moussa B.V. and Serica Energy Pte Limited. Together, these comprise the "Group".

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

### 3. Segmental Information

The Group records its primary operating segment information on the basis of geographical segments which are based on the location of the Group's assets. The Group has only one business segment, that of oil & gas exploration, development and production.

The following tables present profit information on the Group's geographical segments for the three months ended 31 March 2010 and 2009 and certain asset and liability information as at 31 March 2010 and 2009. Costs of the Singapore office are included in the Indonesian geographical segment. Costs associated with the Morocco licences are included in the UK & NW Europe geographical segment.

Three months ended 31 March 2010 (unaudited)	Indonesia US\$000	Vietnam US\$000	UK & NW Europe US\$000	Spain US\$000	Total US\$000
<i>Continuing</i> Revenue	5,334	-	-	-	<u>5,334</u>
Profit/(loss) for the period	1,182	-	(3,857)	(65)	<u>(2,740)</u>
Other segmental information					
Segmental assets	84,093	-	61,266	7	145,366
Unallocated assets					<u>58,432</u>
Total assets					<u>203,798</u>
Segmental liabilities	(6,174)	-	(1,379)	(5)	(7,558)
Unallocated liabilities					<u>(25,525)</u>
Total liabilities					<u>(33,083)</u>

Three months ended 31 March 2009 (unaudited)	Indonesia US\$000	Vietnam US\$000	UK & NW Europe US\$000	Spain US\$000	Total US\$000
<i>Continuing</i> Revenue	-	-	-	-	<u>-</u>
Loss for the period	(435)	(6)	(9,406)	(93)	<u>(9,940)</u>
Other segmental information					
Segmental assets	114,963	15,247	55,910	60	186,180
Unallocated assets					<u>36,600</u>
Total assets					<u>222,780</u>
Segmental liabilities	(20,478)	(5)	(2,022)	(8)	(22,513)
Unallocated liabilities					<u>(44,422)</u>
Total liabilities					<u>(66,935)</u>

#### 4. Exploration and Evaluation Assets

	Total US\$000
Net book amount:	
At 1 January 2010 (audited)	66,030
Additions	3,534
At 31 March 2010 (unaudited)	<u>69,564</u>

#### 5. Property Plant and Equipment

	Oil and gas properties US\$000	Computer / IT equipment US\$000	Fixtures, fittings and equipment US\$000	Total US\$000
Cost:				
At 1 January 2010 (audited)	54,935	204	431	55,570
Additions	1,182	60	-	1,242
At 31 March 2010 (unaudited)	<u>56,117</u>	<u>264</u>	<u>431</u>	<u>56,812</u>
Depreciation and depletion:				
At 1 January 2010 (audited)	1,171	174	361	1,706
Charge for the period	1,392	6	18	1,416
At 31 March 2010 (unaudited)	<u>2,563</u>	<u>180</u>	<u>379</u>	<u>3,122</u>
Net book amount				
At 31 March 2010	<u>53,554</u>	<u>84</u>	<u>52</u>	<u>53,690</u>
At 1 January 2010	<u>53,764</u>	<u>30</u>	<u>70</u>	<u>53,864</u>

## 6. Financial Liabilities

	31 March 2010 US\$000	31 December 2009 US\$000
Non-current bank loans:		
Variable rate multi-option facility	(23,119)	(24,371)
Current bank loans:		
Variable rate multi-option facility	-	(46,447)

The total gross liability as at 31 March 2010 was US\$25 million which is disclosed net of the unamortised portion of allocated issue costs.

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

Further details of the Company's financial resources and debt facilities are given in the Q1 2010 Management's Discussion and Analysis.

## 7. Equity Share Capital

	31 March 2010 Number	31 March 2010 US\$000	31 December 2009 Number	31 December 2009 US\$000
<b>Authorised:</b>				
Ordinary shares of US\$0.10	350,000,000	35,000	350,000,000	35,000
Ordinary 'A' share of £50,000	1	90	1	90
	<u>350,000,001</u>	<u>35,090</u>	<u>350,000,001</u>	<u>35,090</u>

The authorised share capital of the Company is £50,000 and US\$35,000,000 divided into one 'A' share of £50,000 and 350,000,000 ordinary shares of US\$0.10 each. The ordinary "A" share has no special rights.

The balance classified as total share capital includes the total net proceeds (both nominal value and share premium) on issue of the Group and Company's equity share capital, comprising US\$0.10 ordinary shares and one 'A' share.

	Share capital Number	Share premium US\$000	Share premium US\$000	Total Share capital US\$000
<b>Allotted, issued and fully paid:</b>				
<b>Group</b>				
At 1 January & 31 December 2009 and at 31 March 2010	<u>176,518,311</u>	<u>17,742</u>	<u>189,891</u>	<u>207,633</u>

In April 2010, 52,000 share options were converted to ordinary shares at a price of £0.32. As at 27 May 2010 the issued voting share capital of the Company is 176,570,311 ordinary shares.

## **8. Share-Based Payments**

### Share Option Plans

Following a reorganisation (the "Reorganisation") in 2005, 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").

Serica Energy Corporation ("Serica BVI") was previously the holding company of the Group but, following the Reorganisation, is now a wholly owned subsidiary of the Company. Prior to the Reorganisation, Serica BVI issued options under the Serica BVI Option Plan and, following the Reorganisation, the Company has agreed to issue ordinary shares to holders of Serica BVI Options already awarded upon exercise of such options in place of the shares in Serica BVI to which they would be entitled. There are currently options outstanding under the Serica BVI Option Plan entitling holders to acquire up to an aggregate of 1,975,000 ordinary shares of the Company. No further options will be granted under the Serica BVI Option Plan.

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

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

As at 31 March 2010, the Company has granted 13,687,500 options under the Serica 2005 Option Plan, 12,875,500 of which are currently outstanding. 5,195,000 of the 12,875,500 options currently outstanding under the Serica 2005 Option Plan are exercisable only if certain performance targets being met. These include 2,175,000 options awarded to executive directors in January 2010.

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain market conditions) to estimate the fair value of share options at the date of grant. The estimated fair value of options is amortised to expense over the options' vesting period. US\$501,000 has been charged to the income statement in the three month period ended 31 March 2010 (three month period ended 31 March 2009: US\$298,000) and a similar amount credited to other reserves. The total Q1 2010 charge of US\$501,000 includes an amount of US\$201,000 in respect of the modification in December 2009 of certain options whose exercise period was extended by five years.

The assumptions made for the options granted in 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 options granted in January 2010 were consistently valued in line with the Company's valuation policy, assumptions made

included a weighted average risk-free interest rate of 4%, no dividend yield, and a volatility factor of 50%.

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

<b>Serica BVI Option Plan</b>	<b>Number</b>	<b>WAEP Cdn\$</b>
Outstanding at 31 December 2008	2,322,500	1.53
Expired during the year	(347,500)	2.00
Outstanding at 31 December 2009	1,975,000	1.45
Expired during the period	-	-
Outstanding as at 31 March 2010	1,975,000	1.45
<b>Serica 2005 Option Plan</b>		<b>£</b>
Outstanding at 31 December 2008	8,479,000	0.87
Granted during the year	750,000	0.32
Cancelled during the year	(557,000)	0.87
Outstanding at 31 December 2009	8,672,000	0.82
Granted during the period	4,203,500	0.68
Outstanding at 31 March 2010	12,875,500	0.77

In April 2010, 52,000 share options were exercised by employees other than directors at a price of £0.32.

## 9. Taxation

The major components of income tax in the consolidated income statement are:

Three months ended 31 March:	2010 US\$000	2009 US\$000
Current income tax charge	231	-
Deferred income tax charge	971	-
Total tax charge	1,202	-

## **10. Publication of Non-Statutory Accounts**

The financial information contained in this interim statement does not constitute statutory accounts as defined in the Companies Act 2006. The financial information for the full preceding year is based on the statutory accounts for the financial year ended 31 December 2009. Those accounts, upon which the auditors issued an unqualified opinion, are available at the Company's registered office at 87-89 Baker Street, London W1U 6RJ and on its website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

This interim statement will be made available at the Company's registered office at 87-89 Baker Street, London W1U 6RJ and on its website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).