

# Serica Energy plc

("Serica" or the "Company")

## Q1 2011 Results

London, 16 May 2011 – Serica Energy plc (TSX & AIM: SQZ), the oil and gas exploration and production company, today announces its financial results for the three months ending 31 March 2011. 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\$8.6 million
- First quarter gross profit of US\$1.6 million
- Cash position at 31 March 2011 – US\$22.0 million
- Re-paid all outstanding debt

### Operational Highlights:

- Kambuna field gas production on target with average 39.6 mmscfd (gross)
- Kambuna field condensate sales averaged 2,422 bpd (gross)
- Gas price sales averaged US\$6.11 mscf and condensate averaged US\$110.7 bbl
- Columbus – front end engineering design completed ready for decision on export routes
- Material prospects yet to be drilled slated for 2H11-1H12 drilling programme

### Corporate:

- Paul Ellis, CEO retired but continues in advisory capacity on specific projects
- Tony Craven Walker, Chairman becomes Chairman and CEO on interim basis
- Peter Sadler, COO appointed Business Development Director, focussing on acquisition strategy
- Mitch Flegg, appointed COO, previously responsible for Serica's Drilling & Developments

### Outlook:

- Clear forward strategy to:
  - strengthen and diversify through acquisitions of complementary assets
  - enlarge portfolio through applications for new licences in UK and overseas
  - conclude discussions regarding strategic review of Indonesian assets
  - progress Columbus field development to early project sanction
  - seek partners to participate in drilling programme
- Positive financial position to pursue these objectives

**Tony Craven Walker, Chairman of Serica** commented:

***"Serica ends the first quarter in a solid financial position having re-paid all of its outstanding debt. With ongoing cash flows from Kambuna, an undrawn bank facility, a field close to development decision and material undrilled prospects, Serica is well placed to pursue its immediate objectives."***

**Throughout the first quarter of 2011 Serica has continued to benefit from its 25% interest in the Kambuna field and the field consistently delivered at the rate demanded. We are reviewing proposals which may support a decision to sell our Indonesian assets, including our interest in the Kambuna field. If agreed, the benefits of such a sale would allow us to develop new opportunities through acquisitions and licence awards whilst also strengthening our cash position. We hope to reach a decision shortly.**

**The Company has material exploration prospects which are not recognised by the market. Subject to securing partners where appropriate to spread risk and reduce cost, it is our objective to bring these prospects to an early drilling programme.”**

**16 May 2011**

**Enquiries:**

**Serica Energy plc**

Tony Craven Walker, Chairman	<a href="mailto:tony.cravenwalker@serica-energy.com">tony.cravenwalker@serica-energy.com</a>	+44 (0)20 7487 7300
Chris Hearne, CFO	<a href="mailto:chris.hearne@serica-energy.com">chris.hearne@serica-energy.com</a>	+44 (0)20 7487 7300

**J.P.Morgan Cazenove**

Patrick Magee	<a href="mailto:patrick.magee@jpmorgancazenove.com">patrick.magee@jpmorgancazenove.com</a>	+44 (0)20 7588 2828
---------------	--	------------------------

**RBC Capital Markets**

Josh Critchley	<a href="mailto:joshua.critchley@rbccm.com">joshua.critchley@rbccm.com</a>	+44 (0)20 7002 2435
Matthew Coakes	<a href="mailto:matthew.coakes@rbccm.com">matthew.coakes@rbccm.com</a>	+44 (0)20 7653 4871

**CollegeHill**

Nick Elwes	<a href="mailto:nick.elwes@collegehill.com">nick.elwes@collegehill.com</a>	+44(0)20 7457 2020
Simon Whitehead	<a href="mailto:Simon.whitehead@collegehill.com">Simon.whitehead@collegehill.com</a>	+44(0)20 7457 2020

The technical information contained in the announcement has been reviewed and approved by Peter Sadler, Business Development Director 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.

**Notes to Editors**

Serica Energy plc is an oil and gas exploration and production company based in London, England, and holds exploration and production licences in the UK offshore, onshore Spain, the Atlantic Margins of Ireland and Morocco and in Indonesia. The Company's producing and development assets are a 25% interest in the producing Kambuna field offshore Indonesia and a 50% stake in the UK Central North Sea Columbus field.

## **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.

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.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following management's discussion and analysis ("MD&A") of the financial and operational results of Serica Energy plc ("Serica") and its subsidiaries (together the "Group") contains information up to and including 13 May 2011 and should be read in conjunction with the attached unaudited interim consolidated financial statements for the period ended 31 March 2011. The interim financial statements for the three months ended 31 March 2011 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.

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 – QUARTER ENDED 31 MARCH 2011**

Serica is an oil and gas company with exploration, development and production activities based in the UK, Ireland, Spain, Morocco and Indonesia. The Company produces gas and gas condensate in Indonesia and holds additional gas and gas condensate reserves for development in the UK.

During the first quarter of 2011 activities centred on efforts to finalise the review of options relating to the future of the Company's Indonesian assets, bring the UK Columbus gas field closer to project sanction, complete the evaluation of undrilled prospects lying in the Company's acreage in order to formalise a drilling programme and secure additional investment opportunities in both its existing and new areas.

In February, the Company repaid its outstanding loans leaving it with no debt and a cash balance of US\$22.0 million at the end of the quarter. Coupled with an undrawn bank facility of US\$50 million and ongoing cash flows from its Indonesian properties, the Company has more than adequate resources to pursue its immediate objectives.

Throughout the quarter, the Company continued to benefit from production from its 25% interest in the Kambuna field in Indonesia, with the field consistently delivering at the rate expected. Gross gas production from the field averaged 39.6 mmscfd over the quarter at an average sales price of US\$6.11 per mcf with gross condensate sales averaging 2,422 bpd at an average sales price of US\$110.7 per barrel. Since the end of the quarter, production from the field has remained at these levels.

Although the Company continues to see good cash flows from its production in Indonesia, and the Kambuna field is currently the Company's only source of production, the results of a strategic review indicate that greater benefit could accrue to Serica and its shareholders if the Company crystallises the remaining value of its Indonesian assets through a cash sale and reinvests the proceeds and other savings in new areas where the Company believes there is greater potential and opportunity for growth. Since the end of the quarter, discussions have therefore been taking place with third parties which may result in the Company agreeing a sale of its Indonesian properties.

Serica has several material undrilled prospects in its portfolio. These prospects have been subjected to in-depth evaluation by the Company during the first quarter. This prospect evaluation is ongoing with a view to a drilling programme commencing in the second half of 2011 and extending into 2012 including wells to be drilled in Indonesia, the UK and Ireland. To maintain the appropriate portfolio balance the Company will be seeking partners for certain of these wells whilst also seeking to expand its portfolio in existing and new areas through licence applications and acquisitions.

In March the Company announced a number of executive changes. Paul Ellis, Chief Executive, reached normal retirement age on 10 April 2011 and, in accordance with his contract, retired from the Company on that date. With effect from that date, pending appointment of a successor, Tony Craven Walker is acting as Chairman and interim CEO. On 1 April, Peter Sadler was appointed Business Development Director to pursue acquisition opportunities for the Company and Mitch Flegg, who has been with Serica since 2006, was appointed Chief Operating Officer.

### **SUMMARY OF OPERATIONS DURING THE QUARTER**

The following provides a summary of activities during the first quarter.

#### **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. Serica operates the block and holds a 50% interest. Activity during the quarter focussed on finalising pre-development engineering studies and negotiations on export routes.

The gas in Columbus is rich in condensate and therefore requires processing before it can enter a gas transportation system. In an independent reserves report undertaken by Netherland, Sewell & Associates at the end of 2010, Serica's share of proved and probable reserves in the field is estimated to be 26.8 bcf of sales gas and 1.8 mmbbl of liquids, a net 6.3 mmboe to Serica.

The field extends to the south into Block 23/21 which contains the Lomond field and is operated by BG International Limited ("BG"). As operator of Block 23/16f, Serica has been actively co-operating with BG, the operator of the Lomond field and a partner in the Columbus field, in the front end engineering design studies for a Bridge Linked Platform. These studies are largely complete. The Bridge Linked Platform would be installed adjacent to the Lomond field platform and receive production from Columbus and other nearby fields for processing on the Lomond platform and onward transportation to the CATS and Forties pipeline systems.

Negotiations with BG continued throughout the first quarter but, to-date, terms acceptable to all parties have not been agreed. Whilst discussions continue, Serica is evaluating alternative export routes for gas and condensate production from Columbus in conjunction with its partners in Block 23/16f and other field operators in the area. Discussions are also taking place to determine the relative interests of the 23/16f and 23/21 partners in the field.

In March 2011, the British Chancellor of the Exchequer announced increases in UK taxes on oil and gas companies which affect the economics of fields such as Columbus. Although the Company has significant brought forward tax losses that will mitigate the effect of this tax increase on Serica, the impact and uncertainty resulting from the tax increase may have an impact on development plans.

#### Central North Sea: Block 15/21g – Spaniards Prospect

Block 15/21g, in which Serica has a 30% interest, lies immediately west of the Scott oilfield and contains a potentially significant extension to the existing Jurassic oil discovery well 15/21-38 in Block 15/21a, which flowed 2,660 bpd of 25° API oil from a good quality Jurassic aged Upper Claymore sand. The Spaniards prospect is a stratigraphic trap and pressure interpretation suggests that the oil column in the discovery well may extend down-dip into Block 15/21g, operated by DEO Petroleum.

During the first quarter, the 15/21a and 15/21g groups reviewed plans to drill a joint well to test the prospect and these discussions are ongoing.

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

Serica has a 65% interest in these blocks and work during the first quarter of 2011 has focussed on detailing Doyle, the Sherwood sand gas prospect lying in the north of Block 113/27c. Following this evaluation a decision will be made with partners on plans to drill the prospect.

#### 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 currently evaluating seismic data with a view to fully delineating the prospects and firming up a drilling programme. Before drilling, Serica is likely to seek a partner.

#### Pending UK Licences

The Company expects to receive the award of further licences under the 26th Round of UK Offshore Licensing when environmental assessments, currently being undertaken by the Department of Energy and Climate Change, have been completed.

### **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 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 gas prospects at those locations. The Company has acquired site survey data in preparation for a 2012 drilling programme 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 Prospect

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 identified on the licence and 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. Serica intends to find a partner to join in drilling a well on Muckish.

### **Spain**

#### Abiego, Barbastro, Binéfar and Peraltilla Exploration Permits

The Company holds a 75% interest and operatorship in the Abiego, Barbastro, Binéfar and Peraltilla Exploration Permits onshore northern Spain. The Permits cover an area of approximately 1,100 square kilometres between the Ebro Basin and the Pyrenees. Several gas prospects have been identified by Serica in the permits and the Company is in discussion with a potential farm-in partner. If terms can be agreed, a commitment to drill an exploration well will be given to the Spanish authorities.

### **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 Basin and extend from the Moroccan coastline into water depths reaching a maximum of 2,000 metres.

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 and work during the quarter focussed on interpretation of this data. A drill or drop decision is required to be made at the end of the initial phases of the Agreements. The initial phase of the Sidi Moussa area was due to end February 2011 and that of Fom Draa is due to end February 2012. The Company is awaiting confirmation from the Moroccan Government of an extension to the initial phase for Sidi Moussa.

The Tarfaya Basin is geologically analogous to the oil producing salt basins of West Africa. Although evaluation of the seismic data is not yet complete, Serica has identified a number of significant prospects in the blocks. It is the intention to seek a partner before entering the drilling phase.

### **Indonesia**

Serica's interests in Indonesia are subject to a strategic review which may result in a sale of the properties. During the first quarter of 2011 the Company invited proposals from interested parties with a view to the possible disposal of its Indonesian properties. Although no decision has yet been taken, these discussions are at an advanced stage and may lead to a sale.

#### North Sumatra: Glagah Kambuna TAC - Kambuna Field

The Glagah Kambuna TAC, containing the producing Kambuna gas field, covers an area of approximately 380 square kilometres and lies offshore North Sumatra. Serica holds an interest of 25% in the TAC. An independent reserves report by RPS Energy, undertaken

at the end of 2010, estimated gross remaining proved and probable reserves in the Kambuna field as 28.1 bcf of sales gas and 2.3 mmbbl of condensate, a total of 8.2 mmboe as at 1 January 2011.

The Kambuna gas is used for power generation to supply electricity to the city of Medan in North Sumatra and for industrial uses. During the first quarter of 2011 gross production from the field amounted to 3.6 bcf of sales gas and 265,000 bbls of condensate. The average gas sales price realised was US\$6.11 per mcf with condensate realising an average price of US\$110.7 per barrel. The highest price achieved during 2011 to date is US\$116.6 per barrel, achieved in March.

A well is planned to be drilled from the Kambuna platform during the second half of 2011 to exploit the gas bearing potential of a likely northern extension of the field. This activity plus the planned installation of gas compression is intended to support the productive capacity of the field.

#### North Sumatra: East Seruway PSC

Serica holds a 100% interest in the East Seruway Production Sharing Contract ("PSC") offshore North Sumatra, Indonesia. The PSC, which lies adjacent to the Glagah Kambuna TAC, covers an area of approximately 5,864 square kilometres and is largely unexplored.

Following completion of the acquisition of 2,100 line kilometres of 2D seismic data in the PSC in 2010 the Company has identified a number of leads which will require further delineation before making a drilling decision. The Company will need the consent of both the Indonesian authorities and the semi-autonomous province of Aceh in order to undertake work in certain parts of the PSC.

#### East Kalimantan: Kutai PSC

Serica is the operator of the Kutai PSC and holds a 30% interest. The PSC is divided into five blocks located in the Mahakam River delta both onshore and offshore East Kalimantan.

The Company drilled two wells, Marindan and Dambus, in 2010. Both wells encountered hydrocarbons but in insufficient quantities to support standalone development. In the light of the Dambus result other prospects and leads in the area around the Dambus well are under review. Gas discovered at Dambus would reduce the threshold volume required for the development of any further resources that may be discovered in the immediate area.

### **FORWARD PROSPECTS**

The Company is in a positive cash position with a portfolio of properties including production, field development and material exploration prospects lying in several different geological basins. The Company has the technical and proven operating skills to exploit these prospects.

It is a key objective for the Company to enlarge this portfolio through applications for new licences and acquisition of complementary assets to give it increased scale and diversity.

Serica is in a good position to achieve these objectives. In the event that the Company disposes of its properties in Indonesia the resources released would enhance the financial resources available for investment in its existing acreage and in new areas where the Company sees greater growth opportunity.



## FINANCIAL REVIEW

A detailed review of the Q1 2011 results of operations and other financial information is set out below.

### Results of Operations

	2011	2010	2010	2010	2010
	Q1	Q4	Q3	Q2	Q1
	US\$000	US\$000	US\$000	US\$000	US\$000
<i>Continuing operations</i>					
Sales revenue	8,577	9,413	10,018	6,537	5,334
Cost of sales	(7,013)	(8,014)	(4,612)	(3,450)	(2,682)
Gross profit/(loss)	1,564	1,399	5,406	3,087	2,652
Expenses:					
Impairment of fixed assets	-	(11,797)	-	-	-
Pre-licence costs	(238)	(364)	(134)	(665)	(761)
E&E and other asset write offs	(339)	(29,380)	(29)	(77)	-
Administrative expenses	(1,649)	(2,034)	(1,714)	(1,758)	(1,847)
Foreign exchange gain/(loss)	68	(148)	105	18	80
Share-based payments	(302)	(267)	(233)	(230)	(501)
Depreciation	(89)	(72)	(29)	(12)	(24)
Operating loss before net finance revenue and taxation	(985)	(42,663)	3,372	363	(401)
Profit on disposal	-	-	-	-	-
Finance revenue	8	11	13	20	130
Finance costs	(822)	(894)	(921)	(1,001)	(1,267)
(Loss)/profit before taxation	(1,799)	(43,546)	2,464	(618)	(1,538)
Taxation (charge)/credit	(666)	3,434	(2,183)	(1,028)	(1,202)
(Loss)/profit for the period	(2,465)	(40,112)	281	(1,646)	(2,740)
Basic and diluted loss per share	(0.01)	(0.22)	N/A	(0.01)	(0.02)
Basic earnings per share	N/A	N/A	0.002	N/A	N/A
Diluted earnings per share	N/A	N/A	0.002	N/A	N/A

Serica generated a gross profit of US\$1.6 million for the three months ended 31 March 2011 ("Q1 2011") from its retained 25% interest in the Kambuna Field.

The Company 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. All revenue in 2010 and Q1 2011 was generated from a 25% field interest.

In Q1 2011, gross Kambuna field gas production averaged 39.6 mmscf per day (Q1 2010 22.4 mmscf per day) together with average condensate production of 2,940 barrels per day (Q1 2010 1,982 barrels per day). Field commissioning work was completed in Q4 2010. The Q1 2011 gas production was sold at prices averaging US\$6.11 per mscf (Q1 2010 US\$5.48 per mscf) and generated US\$5.0 million (Q1 2010 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 the period earned US\$3.6 million (Q1 2010 US\$2.7 million) of revenue net to Serica at an average price of US\$110.73 per barrel (Q1 2010 US\$78.56 per barrel).

Cost of sales were driven by production from the Kambuna field and totalled US\$7.0 million in Q1 2011 (Q1 2010: US\$2.7 million). The most significant components of the total charge were non cash depletion of US\$5.3 million (Q1 2010: US\$1.4 million) and operating costs of US\$1.7 million (Q1 2010: US\$1.4 million). Depletion charges per boe increased significantly for Q4 2010 and Q1 2011 as the result of the year end reduction in estimated Kambuna field reserves. The direct operating costs and depletion also rose from Q1 2010 as a result of increased production from the Kambuna field.

The Company generated a loss before tax of US\$1.8 million for Q1 2011 compared to losses before tax of US\$1.5 million for Q1 2010 and US\$43.5 million for Q4 2010 respectively.

The Q4 2010 US\$11.8 million pre-tax impairment related to the Kambuna field and resulted from the year end reduction in estimated reserves. The impairment was recorded against oil and gas property, plant and equipment (US\$11.7 million) and goodwill (US\$0.1 million).

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\$0.2 million for Q1 2011 decreased from the Q1 2010 charge of US\$0.8 million due to the significant work undertaken in Q1 2010 on the 26<sup>th</sup> Licensing Round in the UK. In 2010 the Company was awarded interests in Blocks 210/19a and 210/20a in the UK Northern North Sea and is awaiting the outcome of other applications from the 26<sup>th</sup> Round.

Minor asset write offs in Q1 2011 of US\$0.3 million were in respect of the Kutai PSC in Indonesia. There were no asset write offs in Q1 2010. Asset write offs in Q4 2010 of US\$29.4 million included E&E asset expenses from the Kutai PSC in Indonesia (US\$24.3 million) and Oates in the UK North Sea (US\$3.5 million). The Management's decision to write off Kutai costs followed the impairment of the Kambuna field, whose reserves had previously covered the carrying cost of the Company's SE Asia assets. The Management's decision to write off the costs of the Oates prospect followed the unsuccessful well and the absence of any further drilling plans for the block. Other Q4 2010 write offs included costs from relinquished licences and sundry items.

Administrative expenses of US\$1.6 million for Q1 2011 decreased from US\$1.8 million for the same period last year and US\$2.0 million for Q4 2010. The Company continues to manage carefully its financial resources. The Q4 2010 expense includes higher costs relating to corporate activity.

The impact of foreign exchange was not significant in Q1 2011 or Q1 2010.

Share-based payment costs of US\$0.3 million in Q1 2011 reflected share options granted and compared with US\$0.5 million for Q1 2010 and US\$0.3 million for Q4 2010. The Q1 2010 charges included expenses of US\$0.2 million arising from the extension of certain existing share options in December 2009. The extension of certain existing share options in November 2010 created a charge of US\$0.1 million that was fully expensed in Q4 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 comprising interest income of US\$0.01 million for Q1 2011 compares with US\$0.13 million for Q1 2010 and US\$0.01 million for Q4 2010. The majority of finance revenue earned in Q1 2010 arose from interest on the consideration from the Q4 2009 South East Asia asset disposal to Kris Energy. Bank deposit interest income has been negligible in 2010 and 2011 to date.

Finance costs consist of interest payable, arrangement costs spread over the term of the bank loan facility, other financing fees and the unwinding of the discount on the decommissioning provision. Finance costs directly related to the Kambuna development were capitalised until the field commenced commercial production during Q3 2009.

The Q1 2011 taxation charge of US\$0.7 million (Q1 2010: US\$1.2 million) arose from Indonesian operations, and comprised a current tax charge of US\$0.6 million and a deferred tax charge of US\$0.1 million.

The net loss per share of US\$0.01 for Q1 2011 compares to a net loss per share of US\$0.02 for Q1 2010.

### Summary of Quarterly Results

Quarter ended:	2011 31 Mar US\$000	2010 31 Dec US\$000	2010 30 Sep US\$000	2010 30 Jun US\$000	2010 31 Mar US\$000	2009 31 Dec US\$000	2009 30 Sep US\$000	2009 30 Jun US\$000
Sales revenue	8,577	9,413	10,018	6,537	5,334	3,476	4,167	-
(Loss)/profit for the quarter	(2,465)	(40,112)	281	(1,646)	(2,740)	19,148	(925)	(2,503)
Basic and diluted loss per share US\$	(0.01)	(0.22)	-	(0.01)	(0.02)	-	(0.01)	(0.01)
Basic and diluted earnings per share US\$	-	-	0.002	-	-	0.11	-	-

The fourth quarter 2010 loss includes asset write offs of US\$29.4 million attributed to the Kutai and Oates E&E assets and an impairment charge of US\$11.8 against the Kambuna development and production asset.

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.

## 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 2011 US\$000	31 December 2010 US\$000	31 March 2010 US\$000
Current assets:			
Inventories	2,803	2,748	2,930
Trade and other receivables	11,517	14,669	9,387
Cash and cash equivalents	22,041	30,002	62,429
Total Current assets	36,361	47,419	74,746
Less Current liabilities:			
Trade and other payables	(12,709)	(13,574)	(7,038)
Income tax payable	(2,101)	(1,466)	(520)
Financial liabilities	-	(11,671)	-
Total Current liabilities	(14,810)	(26,711)	(7,558)
Net Current assets	21,551	20,708	67,188

At 31 March 2011, the Company had net current assets of US\$21.6 million which comprised current assets of US\$36.4 million less current liabilities of US\$14.8 million, giving an overall increase in working capital of US\$0.9 million in the three month period.

Inventories increased from US\$2.7 million to US\$2.8 million over the Q1 2011 period.

Trade and other receivables at 31 March 2011 totalled US\$11.5 million, which included US\$5.4 million of trade debtors from gas and condensate sales in February and March. Other significant items included US\$1.0 million for the Company's share of a rig deposit for the Kutai drilling programme, other 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.

Cash and cash equivalents decreased from US\$30.0 million to US\$22.0 million in the quarter. In February 2011, the Company repaid US\$11.8 million in gross drawings on its loan facility. During Q1 2011 the Company generated US\$8.6 million of revenues from the Kambuna field but also incurred ongoing field operating and capital costs. Other costs included exploration work across the portfolio in Indonesia and Ireland, Columbus Field Development Plan expense together with ongoing administrative costs and corporate activity.

Trade and other payables of US\$12.7 million at 31 March 2011 chiefly include trade creditors and accruals from the Q4 2010 Kutai offshore drilling programme and the Kambuna field operations. Other items include sundry creditors and accruals from the ongoing Indonesian and UK exploration programmes, payables for administrative expenses and other corporate costs.

The current tax creditor of US\$2.1 million arises in respect of Indonesian operations.

Financial liabilities at 31 December 2010 comprise drawings under the senior debt facility and are disclosed net of the unamortised portion of allocated issue costs. The balance was classified as short-term 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 March 2011 US\$000	31 December 2010 US\$000	31 March 2010 US\$000
Exploration & evaluation assets	70,748	68,604	69,564
Property, plant and equipment	32,394	37,546	53,690
Goodwill	-	-	148
Financial assets	1,682	1,431	-
Long-term other receivables	4,585	4,748	5,650
Financial liabilities	-	-	(23,119)
Provisions	(1,716)	(1,706)	-
Deferred income tax liabilities	(1,370)	(1,339)	(2,406)

During Q1 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\$70.7 million. These amounts exclude the Kambuna development and production costs which are classified as property, plant and equipment.

The US\$2.1 million of additions were incurred on the following assets:

In Indonesia, US\$0.4 million was incurred on the Kutai PSC and US\$0.6 million was spent on exploration work and G&A on the East Seruway concession.

In the UK & Western Europe, US\$0.5 million was incurred on the Columbus FDP and US\$0.4 million on other UK and Ireland exploration work and G&A. US\$0.2 million was incurred on the Morocco interests.

Property, plant and equipment chiefly comprise the net book amount of the capital expenditure on the Company's interest in the Kambuna development. During Q1 2011, the Company's investment decreased from US\$36.7 million to US\$31.6 million. This US\$5.1 million decrease comprised depletion charges of US\$5.3 million arising from the production of gas and condensate, partially offset by US\$0.2 million of capex additions in the period. The property, plant and equipment also included balances of US\$0.8 million (2010: US\$0.8 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, was impaired following the year end reduction in estimated Kambuna reserves and reduced from US\$0.1 million to US\$ nil in Q4 2010.

Financial assets at 31 March 2011 represented US\$1.7 million of restricted cash deposits.

Long-term other receivables of US\$4.6 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.

Provisions of US\$1.7 million at 31 March 2011 are in respect of Kambuna field decommissioning payments in Indonesia.

The deferred income tax liability of US\$1.4 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 2011 US\$000	31 December 2010 US\$000	31 March 2010 US\$000
Total share capital	207,702	207,657	207,633
Other reserves	18,730	18,428	17,698
Accumulated deficit	(98,558)	(96,093)	(54,616)

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\$18.4 million to US\$18.7 million reflects a credit to equity in respect of share-based payment charges in Q1 2011.

## Asset values and Impairment

At 31 March 2011 Serica's market capitalisation stood at US\$93 million (£58 million), based upon a share price of £0.33, which was exceeded by the net asset value at that date of US\$128 million. By 13 May 2011 the Company's market capitalisation had decreased to US\$87 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. The production from Kambuna complements the Company's exploration activities with sales revenues 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 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.

At 31 March 2011, the Company held cash and cash equivalents of US\$22.0 million and US\$1.7 million of restricted cash. Following the debt repayments in 2010, management reduced the 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 Company's debt facility was fully repaid in February 2011. Overall, the current cash balances held, 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.

#### *Summary of contractual obligations*

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

Contractual Obligations	Total US\$000	<1 year US\$000	1-3 years US\$000	>3 years US\$000
Long term debt	-	-	-	-
Operating leases	1,178	457	721	-
Other long term obligations	1,826	260	696	870
Total contractual obligations	3,004	717	1,417	870

All bank debt was repaid in February 2011.

#### *Lease commitments*

At 31 March 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 2011	457
31 December 2012	539

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

As at 31 March 2011, the Company's share of expected outstanding capital costs in respect of its 25% interest on the Kambuna project totalled approximately US\$5.5 million. These expected costs include budgeted costs for the proposed Kambuna North well.

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 2011 US\$ 10,500,000  
Year ending 31 December 2012 US\$ nil

These obligations reflect the Company's share of the defined work programmes and were not formally contracted at 31 March 2011. The Company is not obliged to meet other joint venture partner shares of these programmes. The most significant 2011 obligations are in respect of the East Seruway PSC and Kutai PSC in Indonesia. Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK and Indonesia.

### 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 2011/12 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 2011, the following director and employee share options were outstanding:

<b>Expiry Date</b>	<b>Amount</b>	<b>Exercise cost Cdn\$</b>
December 2014	200,000	200,000
January 2015	600,000	600,000
June 2015	1,100,000	1,980,000

  

		<b>Exercise cost £</b>
August 2012	1,200,000	1,182,000
October 2013	750,000	300,000
January 2014	521,000	166,720
November 2015	334,000	323,980
November 2015	117,000	113,490
January 2016	1,065,000	1,102,275
June 2016	270,000	259,200
November 2016	120,000	134,400
January 2017	543,000	553,860
May 2017	405,000	421,200
March 2018	1,350,000	1,012,500
March 2018	850,000	697,000
January 2020	3,858,500	2,623,780
June 2020	250,000	162,500

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 £0.31 and an expiry date of 4 April 2021. The exercise of the options is subject to certain performance criteria. The options granted in April 2011 cannot be exercised until three years from the date of grant.

## Outstanding Share Capital

As at 13 May 2011, the Company had 176,660,311 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. Its current activities are located primarily in Western Europe, North Africa and 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 three month period ended 31 March 2011 the Company generated a loss of US\$2.5 million from continuing operations. At 31 March 2011 the Company had US\$22.0 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\$50 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

Tony Craven Walker  
Chairman

Christopher Hearne  
Finance Director

16 May 2011

## **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

bbbl	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
mmbbl	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

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

For the period ended 31 March

Unaudited		Three months ended 31 March 2011 US\$000	Three months ended 31 March 2010 US\$000
	Notes		
<b>Sales revenue</b>	4	8,577	5,334
Cost of sales	5	(7,013)	(2,682)
<b>Gross profit</b>		<hr/> 1,564	<hr/> 2,652
Pre-licence costs		(238)	(761)
E&E and other asset write offs		(339)	-
Administrative expenses		(1,649)	(1,847)
Foreign exchange gain		68	80
Share-based payments		(302)	(501)
Depreciation		(89)	(24)
<b>Operating loss before net finance revenue and tax</b>		<hr/> (985)	<hr/> (401)
Finance revenue		8	130
Finance costs		(822)	(1,267)
<b>Loss before taxation</b>		<hr/> (1,799)	<hr/> (1,538)
Taxation charge for the period	11	(666)	(1,202)
<b>Loss for the period</b>		<hr/> <hr/> (2,465)	<hr/> <hr/> (2,740)
<b>Loss per ordinary share (EPS)</b>			
Basic and diluted EPS on loss for the period (US\$)		(0.01)	(0.02)

**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 2011 US\$000 (Unaudited)	31 Dec 2010 US\$000 (Audited)	31 March 2010 US\$000 (Unaudited)
<b>Non-current assets</b>				
Exploration & evaluation assets	6	70,748	68,604	69,564
Property, plant and equipment	7	32,394	37,546	53,690
Goodwill		-	-	148
Financial assets		1,682	1,431	-
Other receivables		4,585	4,748	5,650
		<u>109,409</u>	<u>112,329</u>	<u>129,052</u>
<b>Current assets</b>				
Inventories		2,803	2,748	2,930
Trade and other receivables		11,517	14,669	9,387
Financial assets		-	-	-
Cash and cash equivalents		22,041	30,002	62,429
		<u>36,361</u>	<u>47,419</u>	<u>74,746</u>
<b>TOTAL ASSETS</b>		<u>145,770</u>	<u>159,748</u>	<u>203,798</u>
<b>Current liabilities</b>				
Trade and other payables		(12,709)	(13,574)	(7,038)
Income taxation payable		(2,101)	(1,466)	(520)
Financial liabilities	8	-	(11,671)	-
<b>Non-current liabilities</b>				
Financial liabilities		-	-	(23,119)
Provisions		(1,716)	(1,706)	-
Deferred income tax liabilities		(1,370)	(1,339)	(2,406)
<b>TOTAL LIABILITIES</b>		<u>(17,896)</u>	<u>(29,756)</u>	<u>(33,083)</u>
<b>NET ASSETS</b>		<u>127,874</u>	<u>129,992</u>	<u>170,715</u>
Share capital	9	207,702	207,657	207,633
Other reserves		18,730	18,428	17,698
Accumulated deficit		(98,558)	(96,093)	(54,616)
<b>TOTAL EQUITY</b>		<u>127,874</u>	<u>129,992</u>	<u>170,715</u>

**Serica Energy plc**  
**Statement of Changes in Equity**  
For the period ended 31 March 2011

**Group**

	Share capital US\$000	Other reserves US\$000	Deficit US\$000	Total US\$000
At 1 January 2011 (audited)	207,657	18,428	(96,093)	129,992
Share-based payments	-	302	-	302
Proceeds on exercise of options	45	-	-	45
Loss for the period	-	-	(2,465)	(2,465)
At 31 March 2011 (unaudited)	<u>207,702</u>	<u>18,730</u>	<u>(98,558)</u>	<u>127,874</u>

For the year ended 31 December 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>
Conversion of options	24	-	-	24
Share-based payments	-	230	-	230
Loss for the period	-	-	(1,646)	(1,646)
At 30 June 2010 (unaudited)	<u>207,657</u>	<u>17,928</u>	<u>(56,262)</u>	<u>169,323</u>
Share-based payments	-	233	-	233
Loss for the period	-	-	281	281
At 30 September 2010 (unaudited)	<u>207,657</u>	<u>18,161</u>	<u>(55,981)</u>	<u>169,837</u>
Share-based payments	-	267	-	267
Loss for the period	-	-	(40,112)	(40,112)
At 31 December 2010 (audited)	<u>207,657</u>	<u>18,428</u>	<u>(96,093)</u>	<u>129,992</u>

**Serica Energy plc**  
**Consolidated Cash Flow Statement**

For the period ended 31 March

Unaudited	(Unaudited) Three months ended 31 March 2011 US\$000	(Unaudited) Three months ended 31 March 2010 US\$000
Cash flows from operating activities:		
Loss for the period	(2,465)	(2,740)
Adjustments to reconcile loss for the period to net cash flow from operating activities		
Taxation	666	1,202
Net finance costs	814	1,137
Depreciation	89	24
Depletion and amortisation	5,286	1,392
Asset write offs	339	-
Share-based payments	302	501
Decrease/(increase) in receivables	1,677	(2,186)
(Increase) in inventories	(55)	(75)
(Decrease) in payables	(230)	(2,031)
<b>Net cash flow from operations</b>	<b>6,423</b>	<b>(2,776)</b>
Cash flows from investing activities:		
Purchase of property, plant & equipment	(223)	(1,242)
Purchase of E&E assets	(2,144)	(3,534)
Proceeds from disposals	-	99,150
Interest received	8	694
<b>Net cash (outflow)/inflow from investing</b>	<b>(2,359)</b>	<b>95,068</b>
Cash proceeds from financing activities:		
Repayments of loans and borrowings	(11,800)	(47,550)
Finance costs paid	(263)	(692)
<b>Net cash from financing activities</b>	<b>(12,063)</b>	<b>(48,242)</b>
<b>Cash and cash equivalents</b>		
Net (decrease)/increase in period	(7,999)	44,050
Effect of exchange rates on cash and cash equivalents	38	(33)
Amount at start of period	30,002	18,412
Amount at end of period	<b>22,041</b>	<b>62,429</b>



## **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 2011 were authorised for issue in accordance with a resolution of the directors on 16 May 2011.

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 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 2011 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 2010. 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 2010.

##### **Going Concern**

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review in the Q1 2011 Management's Discussion and Analysis. As at 31 March 2011, the Group had US\$22.0 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 2010, except for the adoption of the following new standards and interpretations, noted below,

<b>International Accounting Standards (IAS / IFRSs)</b>		<b>Effective date</b>
IAS 24	Related Party disclosures	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRS	Improvements to IFRS	Issued May 2010

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

The following tables present profit information on the Group's geographical segments for the three months ended 31 March 2011 and 2010 and certain asset and liability information as at 31 March 2011 and 2010. Costs of the Singapore office are included in the Indonesian geographical segment. Costs associated with the Morocco licences and the corporate centre in the UK are included in the UK & NW Europe reportable segment.

Three months ended 31 March 2011 (unaudited)	Indonesia US\$000	UK & NW Europe US\$000	Spain US\$000	Total US\$000
<i>Continuing</i> Revenue	8,577	-	-	<u>8,577</u>
Profit/(loss) for the period	320	(2,761)	(24)	<u>(2,465)</u>
Other segmental information				
Segmental assets	56,232	76,581	57	132,870
Unallocated assets				<u>12,900</u>
Total assets				<u>145,770</u>
Segmental liabilities	(10,567)	(7,329)	-	(17,896)
Unallocated liabilities				<u>(17,896)</u>
Total liabilities				<u>(17,896)</u>
Three months ended 31 March 2010 (unaudited)	Indonesia 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>

#### 4. Sales Revenue

Three months ended 31 March:	2011 US\$000	2010 US\$000
Gas sales	4,936	2,567
Condensate sales	3,641	2,767
	<u>8,577</u>	<u>5,334</u>

#### 5. Cost of sales

Three months ended 31 March:	2011 US\$000	2010 US\$000
Operating costs	1,781	1,365
Depletion	5,286	1,392
Movement in inventories of oil	(54)	(75)
	<u>7,013</u>	<u>2,682</u>

#### 6. Exploration and Evaluation Assets

	Total US\$000
Net book amount: At 1 January 2011 (audited)	68,604
Additions	2,144
At 31 March 2011 (unaudited)	<u>70,748</u>

## 7. 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 2011 (audited)	61,005	286	949	62,240
Additions	159	-	64	223
At 31 March 2011 (unaudited)	<u>61,164</u>	<u>286</u>	<u>1,013</u>	<u>62,463</u>
Depreciation and depletion:				
At 1 January 2011 (audited)	24,299	208	187	24,694
Charge for the period	5,286	10	79	5,375
At 31 March 2011 (unaudited)	<u>29,585</u>	<u>218</u>	<u>266</u>	<u>30,069</u>
Net book amount				
At 31 March 2011	<u>31,579</u>	<u>68</u>	<u>747</u>	<u>32,394</u>
At 1 January 2011	<u>36,706</u>	<u>78</u>	<u>762</u>	<u>37,546</u>

## 8. Financial Liabilities

	31 March 2011 US\$000	31 December 2010 US\$000
Current bank loans:		
Variable rate multi-option facility	-	(11,671)

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.

Following the debt repayments in 2010, management reduced the facility to US\$50 million total capacity in Q4 2010 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 and were classified as current as at 31 December 2010.

Further details of the Company's financial resources and debt facilities are given in the Q1 2011 Management's Discussion and Analysis.

## 9. Equity Share Capital

	31 March 2011 Number	31 March 2011 US\$000	31 December 2010 Number	31 December 2010 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.

### Allotted, issued and fully paid:

<b>Group</b>	Number	Share capital US\$000	Share premium US\$000	Total Share capital US\$000
At 1 January 2010	176,518,311	17,742	189,891	207,633
Options exercised (i)	52,000	5	19	24
At 31 December 2010	176,570,311	17,747	189,910	207,657
Options exercised (ii)	90,000	9	36	45
At 31 March 2011	176,660,311	17,756	189,946	207,702

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.

As at 13 May 2011 the issued voting share capital of the Company is 176,660,311 ordinary shares.

## 10. 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 1,900,000 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 2011, the Company has granted 13,687,500 options under the Serica 2005 Option Plan, 11,633,500 of which are currently outstanding. 5,195,000 of the 11,633,500 options outstanding at 31 March 2011 under the Serica 2005 Option Plan are exercisable only if certain performance targets being met. A further 200,000 options were awarded to an executive director in April 2011 which are also exercisable subject to performance targets being 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. The estimated fair value of options is amortised to expense over the options' vesting period. US\$302,000 has been charged to the income statement in the three month period ended 31 March 2011 (three month period ended 31 March 2010: US\$501,000) 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 modification of options in December 2009 and options granted in 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 2009	1,975,000	1.45
Expired during the year	(75,000)	1.00
Outstanding at 31 December 2010	1,900,000	1.46
Expired during the period	-	-
Outstanding as at 31 March 2011	1,900,000	1.46
<b>Serica 2005 Option Plan</b>		<b>£</b>
Outstanding at 31 December 2009	8,672,000	0.82
Granted during the year	4,453,500	0.67
Exercised during the year	(52,000)	0.32
Cancelled during the year	(209,000)	0.88
Outstanding at 31 December 2010	12,864,500	0.82
Exercised during the period	(90,000)	0.32
Cancelled during the period	(1,141,000)	0.84
Outstanding at 31 March 2011	11,633,500	0.78

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 at an exercise price of £0.31. The award granted is subject to performance criteria.

## **11. Taxation**

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

Three months ended 31 March:	2011 US\$000	2010 US\$000
Current income tax charge	635	231
Deferred income tax charge	31	971
Total tax charge	666	1,202

## **12. 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 2010. Those accounts, upon which the auditors issued an unqualified opinion, are available at the Company's registered office at 52 George Street, London W1U 7EA 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 52 George Street, London W1U 7EA 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).