Serica Energy plc
("Serica" or the "Company")

2008 ANNUAL REPORT TO SHAREHOLDERS

London, 27 April 2009 - Serica Energy plc (TSX Venture & AIM: SQZ) today announces its financial results for the three months and twelve months ending 31 December 2008. The results and associated Management Discussion and Analysis are included below and copies are available at www.serica-energy.com and www.sedar.com

2008 Highlights

Serica has strengthened its financial position and risk profile during 2008 against a challenging market backdrop. Substantial capital has been raised through an active asset management programme enabling the Company to pursue its strategy aimed at increasing shareholder value though exploration and field development. This year marks a significant stage in development of the Company with first revenues expected from the Company's Indonesian operations and drilling commencing on material exploration prospects in Ireland, Vietnam and the UK.

Operational Highlights

- 48% increase in Serica's Proven and Probable (2P) Reserves
    - Now 28.5 mmboe (2007 19.3 mmboe) despite partial Kambuna sale
- Kambuna development nears production
    - Gross Kambuna field 2P Reserves increased to 39.3 mmboe with 3P assessed as 62.5 mmboe (Serica interest is 50%)
    - Development wells completed and tested at 114 mmscfd
    - Platform topsides installed and pipeline laid
    - Gas contracts finalised
    - First production scheduled for mid year
- Columbus on track for development
    - Gross Columbus field 2P Reserves assessed as 17.7 mmboe with 3P assessed as 42.3 mmboe (Serica interest is 50%)
    - Field Development Programme submitted for approval
    - Expected to benefit from UK Chancellor's recent budget
- New acreage added to existing core areas
    - 5,864 sq km East Seruway PSC, adjacent to Kambuna, offshore Sumatra
    - UK North Sea: 3 UK part blocks awarded in 25th Round
- 2009 exploration drilling has potential to add material value
    - Bandon prospect in Ireland to be drilled in May
    - Tuong Vi prospect in Vietnam to be drilled May/June
    - Conan prospect in the East Irish Sea planned for 2H 2009

Asset Management

- Substantial financial contribution from asset disposal and licence farm-out
    - US$52 million cash received from disposal of 15% of Kambuna TAC
    - Chablis farm-out raised 56% of well cost (Serica retains 65%)
    - Vietnam farm-out raised 33% of 3 well programme (Serica retains 10%)
    - Bandon farm-out raised 100% of well cost (Serica retains 50%)
    - Contingent payment on first Bream field production (Norway)

Financial Highlights

- US$36.6 million profit on sale of 15% of Kambuna field
- 2008 net loss of US$1.0 million (US$13.6 million in 2007) including asset impairments of US$24.0 million
- Solid net cash position at 31 December 2008 - US$56.8 million of cash and US$32.1 million of debt
- Bank facility extended by 1 year

Serica's Chief Executive, Paul Ellis, commented:

"2008 was a year of solid progress, with reserves increased by 48% and with our finances strengthened with a profitable asset sale and a number of exploration farm-outs. We now look forward to our first production revenue from the Kambuna field in Indonesia and to the results of our forthcoming exploration wells in Ireland and Vietnam."

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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.

CHAIRMAN'S REPORT

Dear Shareholder

2008 can be summed up as a year of extremes. We started the year with oil and gas prices exceptionally strong and with many of the world economies continuing to boom. We ended the year with oil prices down 70% from their mid-year high and with the major economies in recession.

Managing a business in this environment is difficult to say the least, particularly for small companies such as Serica. However, I am pleased to say that the Company reached the year end in a relatively strong position as a result of the decision made earlier in the year to strengthen the Company's finances through the sale of part of one of our assets, the Kambuna field in Indonesia, and to manage the cost and risk of our near term exploration programme through farm-out. As a result, year-end cash stood at US$56.8 million with net current assets at US$21.8 million.

In addition to the fall in the oil price and the onset of worldwide recession, the global credit crunch resulted in a major withdrawal of capital from both the equity and debt markets and consequential falls in share prices. These share price falls bear little relationship to core asset values for companies like Serica, which are focussed more on gas reserves than on oil, but they do affect the ability of companies to finance their operations. Serica has met this challenge by reducing its capital requirements through farm-out and deferral and we have also received strong support from our banks through the extension of our financing facility for the Kambuna field development. As a result, we are confident that the value of the business is protected with prospects for the Company remaining positive.

Last year I said that we expected gas and condensate sales from the Kambuna field to commence at the end of 2008. That target was not achieved due to delays in the government approval process and other operational delays but the field is now scheduled to start production mid-year, bringing our first revenues from the sale of gas and condensate and achieving an important milestone for the Company.

The sale of a 15% interest in the Kambuna field in the third quarter realised a profit of US$36.6 million and demonstrated the value of the Company's retained 50% interest in the field. Serica has also benefitted from increased Kambuna field reserves. Together with the inclusion for the first time of reserves in the Columbus field in the North Sea, which is also expected to benefit from the UK chancellor's recent announcement of tax incentives to encourage field development, this has resulted in an overall 48% increase in the Company's booked reserves this year from 19.3 mmboe to 28.5 mmboe, despite the disposal of part of the Kambuna field.

Notwithstanding the profit from the Kambuna sale, the Company is reporting a net loss of US$1.0 million for the year, compared to a loss of US$13.6 million for 2007. This results from the Board's decision to write-off carrying costs relating to certain of the Company's exploration interests. These include the Company's interests in Spain, where drilling plans have been deferred, the costs of the Oak discovery in the North Sea, where development prospects are uncertain, and the costs to the end of 2008 relating to Chablis where recent drilling has not been able to resolve commercial uncertainties. Whilst value has been added from our exploration and appraisal successes the Board has made provision where there are no current expenditure plans.

Of course the substantial fall in oil price and the current credit squeeze bring opportunities that Serica will exploit where possible as Kambuna revenues commence and Columbus moves closer to production. In 2009 we plan to drill three wells with the first of these, the Bandon prospect offshore Ireland, expected to start in May. Success in this well would be material to the Company.

During the course of the year we welcomed two new directors to the Board. Jonathan Cartwright joined Serica in March 2008 as a non-executive director. Jonathan is Finance Director of Caledonia Investments plc, one of Serica's major shareholders and I welcome both his support and the additional financial expertise that he brings to the Board. Peter Sadler was appointed Chief Operating Officer and joined the Board in November 2008. His extensive experience as a senior executive with independent oil companies in the UK, Australasia and the Middle East considerably strengthens our executive team.

In summary, 2008 has been a year in which Serica has been able to strengthen both its financial position and its risk profile against a background which has not been friendly to business. 2009 brings continuing challenges but also opportunities for which I believe Serica is well placed.

Tony Craven Walker
Chairman

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial and operational results of Serica Energy plc and its subsidiaries (the "Group") should be read in conjunction with Serica's consolidated financial statements for the year ended 31 December 2008.

Serica's activities are based in Western Europe and South East Asia, with interests in the UK, Ireland, Spain, Indonesia and Vietnam. References to the "Company" include Serica and its subsidiaries where relevant. All figures are reported in US dollars ("US$") unless otherwise stated.

CHIEF EXECUTIVE OFFICER'S REPORT – 2008

Despite the economic extremes of 2008, Serica was able to continue the development of the Kambuna field towards first revenue, to increase its reserves significantly, and to improve its financial position by selling a small stake in the Kambuna field in July. Serica also extended its senior debt facility for Kambuna by one year through to November 2009, by which time the field will have been on production for several months. In addition the Company has negotiated farm-out arrangements that will contain the cost of its drilling programme and will enable Serica to drill its exploration prospects in Ireland and Vietnam in 2009 at little cost to the Company.

Serica made significant progress towards its goals in 2008, especially in the development of the Kambuna field in the Glagah-Kambuna Technical Assistance Contract offshore North Sumatra ("the TAC") in which Serica holds a 50% interest. The three Kambuna development wells were completed and tested at production rates which exceeded expectations. However, it is disappointing to note that it proved difficult to obtain timely governmental approvals for construction of the onshore gas facility, contributing to a delay to first gas production of about six months – to mid 2009.

Gas sales contracts have been finalised for the sale of a total of 40 mmscfd at an average price of $4.90 per million BTU ("mmbtu") (approximately $5.85 per mcf), escalating at 3% per year. It is planned to sell a further 10 mmscfd to bring the gross field gas sales to an average of 50 mmscfd. At full production we expect that the initial average realised gas price will be around $6 per mcf.

The condensate produced with the gas is expected to provide an initial gross liquid production of around 3,000 to 4,000 bpd to be sold at a price close to that of crude oil. The cost recovery provisions of the TAC provide a natural hedge against oil prices, because Serica can claim a larger share of oil production to cover its costs if the oil price falls.

Following the completion of the development wells, RPS Energy has estimated that the gross Proved and Probable Reserves of the Kambuna field have increased to 39.3 million barrels of oil equivalent ("mmboe"). There is still a considerable upside to these reserves and RPS estimates the gross Proved, Probable and Possible Reserves of the field to be 62.5 mmboe.

In July 2008 Serica's sale of a 15% interest in the TAC to Salamander Energy plc for US$52.7 million implied a value for Serica's retained 50% interest of US$175 million. On the basis of RPS' forecast of oil price and a discount factor of 10%, RPS has estimated the post-tax net present value of Serica's 50% interest in the Kambuna field to be US$160 million at 31 December 2008, indicating the limited impact of the fall in oil price in the second half of the year.

This sale also provided the opportunity for Serica to transfer the Kambuna development operatorship to Salamander, allowing Serica to concentrate its resources on its core business of exploration where the greater potential exists for significant increases in shareholder value.

Progress was made during 2008 with the Columbus gas field and Serica submitted a Field Development Programme ("FDP") to the UK authorities in October. Serica completed the drilling of the Columbus appraisal wells 23/16f-12 and its sidetrack well 23/16f-12z in late 2007. From the time that Serica discovered the Columbus field in December 2006, it had been considered possible that the field might extend to the south into Block 23/21, operated by BG Group ("BG"). However, with BG having no apparent plan to drill in Block 23/21 to establish the presence of an extension, the 23/16f partners submitted the FDP without the involvement of the Block 23/21 group.

However, late in 2008 BG Group drilled the 23/21-7 well in block 23/21, approximately three kilometers south of the 23/16f-11 Columbus discovery well. Well 23/21-7 comprised a total of four penetrations of the Forties sand reservoir and the data obtained are currently under evaluation.

Netherland Sewell & Associates ("NSA") has estimated that the gross Proved and Probable Reserves of the Columbus field located in Block 23/16f are 17.7 mmboe, with gross Proved and Probable and Possible Reserves of 42.3 mmboe, indicating the considerable upside remaining in the block. Serica holds a 50% interest in Columbus.

Fundamental to Serica's exploration strategy is its ability to find prospects of such quality that, even when the industry's exploration budgets are being curtailed, we are able to find partners to fund a large proportion of the costs of the wildcat drilling.

Initially our exploration efforts in 2008 were focused on securing farm-in partners for the wells to be drilled by Serica on two of its 100% owned licences: the Block 48/16b Chablis appraisal well in the UK southern North Sea and the Bandon exploration well in the Slyne Basin Licence PEL 01/06 off the west coast of Ireland. These efforts were successful and the Company agreed terms with Hansa Hydrocarbons Limited with respect to Chablis and with RWE-DEA AG with respect to Bandon.

We commenced drilling the Chablis appraisal well 48/16b-3 in December and completed the operation in January 2009. Although the well encountered gas-bearing Rotliegendes sands of good reservoir quality the gas bearing interval was thin and the well was plugged and abandoned. The commercial potential of the Chablis accumulation and the remaining adjacent prospects is still unproven and no reserves can be attributed to the area at this time.

We planned to drill the Bandon well offshore Ireland in the summer of 2008, but were not able to acquire the required site survey data at the drilling location early enough for the drilling weather window, due to the poor Atlantic weather experienced in April. However, the survey was acquired later in the year and a rig has been contracted to drill the well in May 2009.

We were also successful in attracting a farminee for the Tuong Vi prospect in Vietnam, and this well is expected to be spudded in June 2009. In keeping with our strategy, further farm-outs are planned for the Conan exploration well in the East Irish Sea and for the wells to be drilled in 2010 in the Kutai PSC.

Serica continues to develop its exploration portfolio on a selective basis and during 2008 was awarded a large Production Sharing Contract offshore Indonesia, the East Seruway PSC, which lies adjacent to the Glagah-Kambuna TAC. We also added new acreage offshore UK with three licence awards in the 25th Licensing Round.

Following the recent announcement of the results of the Chablis appraisal well, we have reviewed the level of costs held in our accounts relating to the asset. Although there may be commercial potential in Serica's Chablis licence areas, in the present economic climate we have decided that no further funds should be committed at this stage. In two other areas no further significant expenditure is planned: UK Block 54/1b (the Oak discovery) and the Spanish Permits. In Block 54/1b the presence of inert gases in the test production from the Oak discovery makes commercial exploitation of this small gas accumulation unlikely in the short term. In Spain, we have obtained a one year suspension of the Permits while we seek a farminee to drill one of the gas prospects identified by Serica following its seismic programme, as the Company has prioritised other exploration activities. In both of these cases we currently plan no significant expenditure and have therefore written off the exploration and evaluation costs incurred to date.

In Norway, Serica completed the disposal of its 20% interest in Licences PL406 and PL407 which included the undeveloped Bream oil field, since Serica considered that due to the high cost of E&P activity in Norway it would not be possible for it to build a particularly profitable business. The Company retains the benefit of a contingent cash payment related to the oil price at the time that the Bream field is brought onto production.

The achievements of 2008, including a 48% increase in booked Proven and Probable Reserves to a total of 28.5 mmboe, were made against a challenging global and industry backdrop and provide a strong testimony for Serica's team and its business approach.

Serica's priorities for 2009 are to achieve first production from the Kambuna field and we plan to drill three exploration prospects which could result in material value to the Company, without incurring significant cost. We will also add further exploration acreage in areas where our knowledge and expertise can add value. In parallel, efforts will be directed towards the successful refinancing of the Company's debt facility on acceptable terms. Serica looks forward to the coming year with enthusiasm and anticipation. 2009 will be the year that Serica matures from its formative years as a pure exploration company and becomes a better balanced company with both exploration and production assets.

Paul Ellis
Chief Executive Officer

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS – SOUTH EAST ASIA

In South East Asia, Serica holds interests in Indonesia and in Vietnam.

The following table summarises the Company's interests in South East Asia. Certain of the interests shown will change upon the completion of agreements which await final government approval.

Block(s)	Description	Role	%	Location
Indonesia				
Glagah Kambuna TAC	Kambuna development	Partner	50%	Offshore North Sumatra
Kutai PSC	Exploration	Operator	78% (1)	Kutai basin
East Seruway PSC	Exploration	Operator	100%	Offshore North Sumatra
Vietnam				
Block 06/94	Exploration	Partner	33.3%(2)	Nam Con Son Basin

Notes:
(1) The Company's 78% interest in the Kutai PSC will reduce to 54.6% following Indonesian government approval of the disposal of a 23.4% interest to Salamander Energy, announced in July 2008.
(2) The Company's 33.3% interest in Block 06/94 will reduce to 10% following required approvals of the disposal of a 23.3% interest to Australian Worldwide Exploration Limited, announced in March 2009.

Indonesia

Glagah Kambuna TAC

The Glagah Kambuna Technical Assistance Contract ("TAC") covers an area of approximately 380 square kilometres and lies offshore North Sumatra. The Company now holds an interest of 50% following the sale of a 15% interest in the Kambuna TAC to Salamander Energy in August 2008 for a consideration of US$52.7 million. As planned, Salamander has also assumed the operatorship of the Kambuna TAC.

Significant progress was made towards the first production from the Kambuna field. Early in 2008 the Kambuna field production platform was installed and three development wells were drilled and tested with very positive results. The total maximum stabilised gas rate from the three wells was 114 million standard cubic feet per day ("mmscfd"), together with an estimated 8,000 barrels per day ("bpd") of condensate, giving a considerable margin of security for the average planned gas sales of 40 to 50 mmscfd.

Installation of the onshore and offshore sections of the 14-inch pipeline and the onshore receiving facilities were all well advanced and the pipeline was commissioned in 1Q 2009. Final installation of the remaining equipment at the onshore facility continues including provision for handling the significant quantities of condensate that the field will produce. It is expected that production from the field will commence around mid year 2009.

The quality of the asset has been further demonstrated in a new reserves report on the Kambuna field carried out by consultants RPS Energy. This report estimates that the gross Proved plus Probable Reserves of the field are 133 bcf of sales gas and 11.6 mm bbl of condensate, a total of 39.3 mm boe, with an upside gross Proved plus Probable plus Possible Reserves of 62.5 mm boe.

Kutai PSC

Serica is the operator of the Kutai Production Sharing Contract ("PSC") and, following the announcement in February 2008 that it had acquired an additional 25.5% working interest, currently holds a 78% interest. This interest will reduce to 54.6% after completion of the transaction with Salamander Energy plc for the sale of a 23.4% interest in the PSC, as announced in July 2008. Completion is subject to certain approvals and consents, including that of the Indonesian government.

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, including Tunu (1,600 million boe), Attaka (800 million boe) and Peciko (>1,000 million boe).

During 2008, the Company completed the acquisition of new 3D seismic data which has revealed an attractive amplitude driven prospect previously unidentified on the old 2D seismic data. The prospect lies in close proximity to the Peciko field and represents a new candidate for drilling in 2010. Further prospects have been defined adjacent to the Tunu and Attaka fields and also in a carbonate reef play fairway in the southern part of the acreage.

In the onshore part of the PSC, Serica is currently carrying out a 2D seismic survey to define structural prospects. During the seismic programme a number of oil seeps have been encountered, demonstrating the existence of a working petroleum system in the acreage.

East Seruway PSC

In October 2008, Serica was awarded the East Seruway PSC offshore north Sumatra, Indonesia. Serica is operator and holds a 100% interest in the PSC, which covers an area of approximately 5,864 sq km (2,264 sq miles) adjacent to the Glagah-Kambuna TAC and which is largely unexplored.

Serica has a detailed regional understanding of the offshore North Sumatra Basin having been a PSC operator there since 2003. The Company will acquire a new seismic survey to further define the exploration potential prior to drilling an exploration well in the block.

Biliton PSC

Serica's two-well exploration programme in the Biliton PSC in the Java Sea was completed in January 2008 and unfortunately neither well encountered hydrocarbons. The cost of the wells was largely carried by a farminee.

Having completed its post-well evaluation Serica sees little further potential in the area and withdrew from the Biliton PSC effective 29 December 2008. The Company is no longer carrying any book costs in respect of the PSC.

Vietnam

Block 06/94 PSC

Serica has a 33.33% interest in the Block 06/94 PSC, which is operated by Pearl Energy and lies in the Nam Con Son Basin about 350 kilometres offshore South Vietnam. The block covers an area of approximately 4,100 square kilometres and is the part of Block 06/1 which British Petroleum (now BP) was obliged to relinquish in 1994 at the end of its contractual exploration period, after discovering the major Lan Tay and Lan Do gas fields. These fields commenced production in 2002 following the construction of a new gas and liquids pipeline to the Vietnamese mainland.

A 730 square kilometre 3D seismic survey was acquired in 2007 and a further 1,000 square kilometre 3D seismic survey was successfully completed in June 2008. Processing is ongoing to evaluate further the prospectivity of the acreage. The Ocean General semi-submersible drilling rig was contracted in 2008 and an exploration well on the Tuong Vi prospect, in the south-western part of the block, is due to be drilled in June 2009.

On 19 March 2009, the Company reached agreement with Australian Worldwide Exploration Limited on the terms of a farm-out of part of Serica's interest in the Block 06/94 PSC offshore Vietnam. The agreement is subject to the approval of the government of Vietnam. Under the agreement, the farminee will bear Serica's 33.33% share of the costs of the three well drilling programme in 2009 and 2010, subject to a financial cap, in order to earn an interest of 23.33% in the PSC, with Serica retaining a 10% interest.

REVIEW OF OPERATIONS - WESTERN EUROPE

In Western Europe Serica holds offshore licence interests in the UK North Sea and East Irish Sea, in Ireland and has onshore licence interests in Spain.

The following table summarises the Company's interests in Western Europe.

Block(s)	**Description**	**Role**	**%**	**Location**
UK				
23/16f	Columbus field	Operator	50%	Central North Sea
48/16b	Chablis appraisal	Operator	65%	Southern Gas basin
48/17d	Chablis appraisal	Operator	65%	Southern Gas basin
54/1b	Oak discovery	Operator	50%	Southern Gas basin
113/26b	Exploration	Operator	100%	East Irish Sea
113/27c	Exploration	Operator	100%	East Irish Sea
14/15a	Exploration	Operator	50%	Central North Sea
23/16g	Exploration	Operator	50%	Central North Sea
Ireland				
27/4	Exploration	Operator	50%	Slyne Basin
27/5 (part)	Exploration	Operator	50%	Slyne Basin
27/9	Exploration	Operator	50%	Slyne Basin
Spain				
Abiego	Exploration	Operator	75%	Pyrenees/Ebro Basin
Barbastro	Exploration	Operator	75%	Pyrenees/Ebro Basin
Binéfar	Exploration	Operator	75%	Pyrenees/Ebro Basin
Peraltilla	Exploration	Operator	75%	Pyrenees/Ebro Basin

United Kingdom

Columbus Field Area - Blocks 23/16f & 23/16g – 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.

Following Serica's December 2006 Columbus discovery well 23/16f-11 which tested a Forties Paleocene sand reservoir at rates of up to 17.5 mmscfd of gas and over 1,000 bpd of condensate, two Columbus appraisal wells, 23/16f-12 and 23/16f-12z, were drilled in the third quarter 2007 and both successfully encountered gas columns and confirmed that the field had development potential.

In October 2008, Serica submitted the Field Development Programme ("FDP") for the Columbus field to the UK government. Engineering studies have been carried out in cooperation with neighbouring infrastructure operators and the FDP currently envisages production via a subsea tie-back to the BP operated Eastern Trough Area Project ("ETAP"). Other production routes are possible and work continues on the final gas and condensate transportation arrangements, which are subject to commercial negotiations. Commencement of development is subject to the approval of the Columbus FDP by the UK government.

Two months after filing this plan, Serica learned that in the adjacent Block 23/21, operator BG Group ("BG") had started to drill a well, about three kilometres south of the 23/16f-11 Columbus discovery well. BG well 23/21-7 comprised a total of four penetrations of the Forties sand reservoir and the data obtained are currently under evaluation.

Independent consultants Netherland, Sewell & Associates have carried out a reserves report on the Columbus field. This report estimates that the gross Proved plus Probable Reserves of the field are 77.4 bcf of sales gas and 4.8 mm bbl of condensate, a total of 17.7 mm boe, with an upside gross Proved plus Probable plus Possible Reserves of 42.3 mm boe. Serica holds a 50% interest in the Columbus field reserves.

Immediately to the north of Block 23/16f lies Block 23/16g, which Serica operates and in which it holds a 50% interest. The block contains a small Forties sand prospect called Livingstone, but the 3D seismic data here is inconclusive as to whether the prospect is likely to contain hydrocarbons.

Chablis Discovery Area - Blocks 48/16b and 48/17d – Southern North Sea

These contiguous blocks cover a total area of 88 square kilometres in the Southern North Sea. Block 48/16b contains the Chablis discovery, drilled in 2001 by ConocoPhillips. Block 48/17b was awarded to Serica in the UK 24th Offshore Licensing Round and lies immediately east of Block 48/16b.

In September 2008, Serica (which then held a 100% interest in both blocks) announced that Hansa Hydrocarbons Limited ("Hansa") would farm-in to Blocks 48/16b and 48/17d. Under the terms of the agreement, Hansa earned a 35% working interest in the blocks in return for contributing to past costs and funding 56% of the majority of the cost of the Chablis appraisal well 48/16b-3. Following completion, Serica remains as operator and retains a 65% working interest in the blocks.

During 2008 work focused on the preparations for and drilling of the appraisal well 48/16b-3 for which Serica contracted the Northern Offshore Energy Enhancer jack-up rig, which spudded the well in December 2008.

Well 48/16b-3 was designed to appraise the Chablis gas discovery made in well 48/16b-2 in 2002 and was targeted to determine the thickness and quality of the Leman sandstone reservoir two kilometres to the east of the discovery well, where there was considerable uncertainty concerning the reservoir quality and thickness. The well had reached a depth of 6,580 ft true vertical depth below mean sea level ("TVDSS") when operational difficulties required the lower section of the well to be re-drilled as sidetrack well 48/16b-3z, which reached the planned total depth of 8,136 ft TVDSS on 12 January 2009, having encountered gas-bearing Leman sands. Although the results of the well show that the reservoir quality is markedly better than in the discovery well and that the wells share a common gas-water contact, the gas-bearing interval was thinner than in the Chablis discovery well.

Serica is now assessing the remaining potential in the undrilled areas east and west of the two wells, where further gas-bearing sands are expected to be present. The 48/16b-3z well was plugged and abandoned.

Oak Discovery – Block 54/1b

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

Well 54/1b-6 was drilled in 2006 and encountered a gas-bearing Leman sandstone reservoir that produced at a stabilized flow rate of approximately 10 mmscfd during a drill-stem test. Subsequent laboratory analysis of gas samples taken during the test indicated that over 50% of the gas was made up of carbon dioxide and nitrogen.

The Oak discovery lies on the median line between the UK and the Netherlands and other fields with a similarly high inert gas content have been discovered near to Oak in both the UK and Dutch sectors. An operator in Holland is investigating the feasibility of joint development of such fields with export to the Dutch gas market. Serica presently considers that in the absence of such a joint development it is unlikely that the Oak discovery could be produced commercially.

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 - one of the UK's largest gas fields.

Serica has identified two Sherwood sand gas prospects, Conan and Doyle. The Conan prospect exhibits a seismic amplitude anomaly at top reservoir level which is of the order of 28 square kilometres in area – making it the largest undrilled amplitude anomaly in the basin. By analogy with several other gas fields in the East Irish Sea (e.g. Hamilton and Calder), which also exhibit an amplitude anomaly, a compelling case can be made that the amplitude seen at Conan is indicative of gas. The prospective resource potential of Conan could be as much as one trillion cubic feet of gas and the prospect lies at a depth of around 5,000 feet. Any discovery here is likely to be economically attractive, as the prospect lies in shallow water and is close to existing infrastructure. Serica is currently seeking a farminee to share the costs of drilling the Conan prospect.

Central North Sea - Block 14/15a

This block covers an area of approximately 108 square kilometres in the Outer Moray Firth in the Central North Sea, adjacent to the Claymore and Lowlander fields. Serica is the block operator and has a 50% interest.

Reprocessing of available 3D seismic data was completed in 2008 and interpretation is underway to mature leads that have been identified at Upper Jurassic, Lower Cretaceous and Paleocene levels.

UK Continental Shelf 25th Round

In the UK 25th Offshore Licensing Round, Serica was offered interests in three blocks: Block 15/21e (split) in the Central North Sea, Block 48/16a (part) in the Southern North Sea and Block 110/2d in the East Irish Sea. The work programmes for these licences include seismic reprocessing but there are no firm well commitments.

Block 15/21e (split) lies in the Central North Sea and Serica will have a 30% interest. The block lies immediately west of the Scott field and contains a potentially significant extension to the existing Jurassic oil discovery in well 15/21a-38. The licence operator will be a subsidiary of Encore Oil plc.

Block 48/16a (part) lies in the Southern North Sea and Serica will operate the licence. The block lies immediately west of Serica's Chablis field and the field, if proven, may extend into the new licence. Serica will initially have a 100% interest, but this may be reduced to 65% under the terms of a farm-out agreement. Serica presently holds a 65% operated interest in the Chablis field in Blocks 48/16b and 48/17d.

Block 110/2d lies in the East Irish Sea adjacent to the Morecambe gas field and five kilometres south of Serica's Blocks 113/26b and 113/27c which contain the Conan and Doyle prospects. Serica will operate the licence with a 100% interest.

Ireland

<u>Slyne Basin – Licence PEL 01/06 - Blocks 27/4, 27/5 (west) and 27/9</u>

Serica is the operator and holds a 50% interest in Licence PEL 01/06, 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 Licence comprises Blocks 27/4, 27/5 (west) and 27/9.

In September 2008, Serica reached agreement with RWE Dea AG ("RWE") to farm-out a 50% interest in Licence PEL 01/06 and the transaction completed in December 2008 following receipt of the required Irish government approvals. Under the terms of the farm-out agreement, RWE will contribute the bulk of the cost of drilling the first exploration well, the Bandon prospect, scheduled for May 2009. Serica will remain as operator and retains a 50% working interest in the Licence.

Serica has identified four prospects in the blocks, two of which exhibit strong seismic amplitude anomalies. The Bandon prospect, the first of these anomalies to be drilled, has a prospective resource range of 230 billion cubic feet to 1.7 trillion cubic feet.

Ireland has immediate and long-term needs for local gas supplies as it currently imports the bulk of its gas needs. Any sizeable discovery in the blocks would be a significant and welcome addition to Ireland's energy supplies.

Serica has secured the Ocean Guardian semisubmersible drilling rig for the Bandon exploration well. The well will test the Triassic Sherwood sandstone reservoir, which is also the gas-bearing reservoir in the Corrib field.

Spain

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.

A 315 kilometre 2D seismic survey was completed in January 2008. The data from this survey is of high quality and, as a result, several prospects have been mapped at both shallow and deeper levels. The Spanish gas market would readily absorb any gas produced from the Permits and there is a main gas trunk pipeline in close proximity.

Although the survey has indicated potential drilling prospects, in order to allow more time to complete environmental and well planning studies, the government agreed to suspend the Permits for up to a year. A drill or drop decision must be made prior to November 2009 and Serica is seeking a farm-in partner.

Norway

In June the Company reached agreement with Spring Energy Norway AS for the sale of Serica's non-core Norwegian business interests, comprising a 20% working interest in Norwegian offshore licences PL406 and PL407. Following the receipt of the required Norwegian government approvals, the transaction completed in November. The consideration included repayment of past costs and a contingent cash payment to reflect the value of the Bream field at the time that the field is brought onto production. Under the terms of the transaction Serica has therefore retained a part of the potential value of the Bream field without being exposed to further appraisal and development costs or to the commitment of additional resources.

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)
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 certainy 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

FINANCIAL REVIEW

The second half of 2008 saw the onset of worldwide recession, falls in oil prices and major withdrawals of capital from equity and debt markets. These events have provided particular challenges in the management of financial resources, and have also acted as a catalyst for the review and reconsideration of the underlying value of assets. These items are discussed in detail below, together with a review of the results of operations and other financial information.

Financial 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 imminent, and the Columbus gas discovery in the UK North Sea, for which development plans have been submitted. The Company is soon to enjoy its first significant revenues, complementing its exploration activities with producing interests.

2008 financing developments
During 2008 the Company made significant progress in securing funding to advance its business prior to first gas revenues and operating cash inflows.

In January 2008 the Company announced the completion of a placing of 24,770,354 new ordinary shares on the AIM Market and the TSX-V in Canada. The total amount raised was approximately US$48.6 million after expenses.

The Company entered into a US$100 million senior secured debt facility with JPMorgan Chase Bank, N.A. and The Governor and Company of the Bank of Scotland in November 2007. This facility had an initial term of twelve months, with the Company having an option to extend for a further six months. During 2008 a third bank, Natixis, joined the consortium of lenders, and in November the extension option to May 2009 was taken up by the Company. In February 2009 a further extension of the facility until November 2009 was formally agreed.

Whilst exploration has been equity-financed, Kambuna development costs have been largely debt-financed. To mitigate the need for equity and to manage its overall financial exposures the Company's policy has been to farm down exploration wells prior to drilling. In addition it took the opportunity to crystallise significant value through the sale of a 15% interest in the Kambuna field for US$52.7 million in cash in the third quarter of last year, with Serica retaining a 50% interest in the field. The sale of the Company's interests in Norway where drilling and development costs had become prohibitive, whilst retaining upside in the Bream field, marks Serica's approach to managing the level of its financial exposures.

2009 and beyond
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 completion of the Kambuna development and receipt of first field revenues will reweight the balance from investment to income generation. In addition its position as operator of most of its exploration interests leaves Serica well-placed where the timing of expenditure is concerned. Near-term exploration spend is mitigated through farm-down or deferral.

As of 24 April 2009, the Company's debt facility was US$45 million drawn down out of a total of US$100 million resulting in a net debt position of some US$7 million. In February 2009 the facility was extended until November 2009, when refinancing will be required. Further draw downs and ongoing expenditure are planned prior to refinancing. By this time revenues from the Kambuna field will have commenced putting the Company in a stronger financial position. Although the refinancing cannot be considered certain in the current environment, the recent extension of the debt facility demonstrates the strong relationship that the Company has formed with its major lenders. The option of further asset sales is also open to the Company.

Overall, the part disposal of Kambuna for cash, the start of revenues from the retained Kambuna interest and the control that the Company can exert over the timing and cost of its exploration programmes both through operatorship and through successful farm-outs leave it well placed to manage its commitments through this difficult financial environment. Serica intends to continue taking a prudent approach to financial management so as to retain the strength that it has built to-date.

Asset values and Impairment

Recent financial and market turmoil has precipitated a world-wide reconsideration of the underlying value of assets. In Serica's case, its market capitalisation at 31 December 2008 stood at US$80 million (£55 million) based on a share price of 31 pence (as of 24 April 2009 its share price was 55 pence). As this was significantly exceeded by the net asset value reflected on the balance sheet date, management has conducted a thorough review of the carrying value of its assets. The key elements of its asset values are Property, Plant and Equipment and Exploration and Evaluation assets plus other assets including cash, and receivables.

Property, Plant and Equipment represents the cost of developing the Company's interest in the Kambuna gas field which is due to come on-stream later this year. The value of future income streams, underpinned by gas sales contracts, is projected to exceed booked costs by a significant margin and consequently no impairment indicator has been determined.

Exploration and Evaluation assets represent activities at an earlier stage in the investment cycle, for which the estimated value is necessarily subject to greater uncertainties including drilling risk, development risk and general commercial factors. These assets include Serica's Columbus gas discovery for which a development plan has been submitted, plus exploration and appraisal costs on its other licences. After conducting a review of Exploration and Evaluation assets, management has decided to write off costs to-date of US$6.1 million on its Spanish permits, US$6.1 million on its Oak discovery in the UK, and US$11.4 million of costs on its Chablis interest, also in the UK.

Although seismic surveys conducted on the Spanish permits in 2007/8 indicated potential drilling prospects, in the current economic climate Serica is prioritising other exploration activities. Management has decided to write off all costs to-date associated with exploration and evaluation of its four Spanish permits, totaling US$6.1 million, as no significant further expenditure is planned on the permits at this stage. The Company continues to seek a farminee to drill one of the gas prospects identified and has obtained a one year suspension of the permits.

In the UK North Sea the drilling in 2006 of well 54/1b-6 on the Oak prospect resulted in a discovery of gas containing significant quantities of carbon dioxide and nitrogen. Work continues to establish the development potential for this accumulation which would require substantial offshore processing facilities and thus would only be economic in conjunction with other similar discoveries in the area. As progress towards this is not within Serica's control, the Company has no plans to commit further expenditures on the block at this stage. Management has therefore decided to write-off all exploration and evaluation costs to-date on the block, totaling US$6.1 million. Serica's share of expenditures on the discovery well were reduced through farm down to Centrica, which bore the majority of the dry-hole costs.

Following the recent announcement of the result of its Chablis appraisal well, the Company has undertaken a review of the licence area. Although management considers that the licence continues to offer prospectivity, in view of the indeterminate outcome of the well and the challenging economic environment, Serica has decided not to allocate further funds to the exploration of this area. This will allow the deployment of funds to other prospects within its portfolio offering better near-term opportunities. Consequently, US$11.1 million of Exploration and Evaluation (“E&E”) costs plus US$0.3 million of goodwill has been charged to the Income Statement in 2008.

The Company’s other assets primarily comprise cash held with a range of financial institutions carrying a minimum of A-1 credit ratings, plus other receivables.

In summary management has concluded that net assets of US$165.5 million, after these write-downs, are fully supported and that the shortfall against its current market value (approximately US$140 million as at 24 April 2009) reflects the broader financial turmoil and the withdrawal of investors from the markets. The Company is in a position to tailor the level of its investments to the funds available and consequently to protect the value of its assets during this period of turbulence. It also draws comfort from the healthy forward markets for oil and gas.

Results of Operations

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

Serica generated a loss of US$1.0 million for 2008 compared to a loss of US$13.6 million for 2007.

	2008 US$000	2007 US$000
Sales revenue	-	-
Expenses:		
Administrative expenses	(8,628)	(7,813)
Foreign exchange (loss)/gain	(370)	394
Pre-licence costs	(1,150)	(287)
Asset write offs	(24,034)	(9,282)
Share-based payments	(1,781)	(1,962)
Depreciation and depletion	(146)	(149)
Operating loss before net finance revenue and tax	(36,109)	(19,099)
Profit on disposal	36,620	-
Finance revenue	1,823	2,669
Finance costs	(3,138)	(321)
Loss before taxation	(804)	(16,751)
Taxation credit for the year	228	432
Loss for the year from continuing operations	(576)	(16,319)
Discontinued operations		
(Loss)/profit for the year from discontinued operations	(395)	2,690
Loss for the year	(971)	(13,629)
Loss per ordinary share (LPS)		
Basic and diluted LPS – continuing operations (US$)	(0.003)	(0.108)
Basic and diluted LPS on loss for the year (US$)	(0.006)	(0.090)

Administrative expenses of US$8.6 million for 2008 increased from US$7.8 million for 2007 and reflect the growing scale of the Company's activities over the past twelve months, albeit a less significant growth than from 2006 to 2007. The Company incurred higher levels of cost on various transactions and other corporate activity in 2008 which more than offset any US$ equivalent cost reduction of those general administrative costs incurred in £ sterling, which fell as the US$ strengthened in the second half of 2008.

The overall impact of foreign exchange is not significant in 2008 or 2007. Foreign exchange losses were incurred during the second half of 2008 following the strengthening of the US$ against the £ sterling and the Norwegian Kroner, and its impact on the US$ equivalent of cash deposits and other recoverables denominated in those currencies. These losses were partially offset by foreign exchange gains booked on the US$ equivalent of the £ sterling element of a loan draw-down.

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. During 2008 significant work was undertaken on the UK 25th Licencing Round from which the Company has been awarded interests in three licences. This activity has largely caused the increase in expense of US$0.9 million from US$0.3 million in 2007 to US$1.2 million in 2008. Pre-licence expense has been incurred at similar levels in South East Asia in 2007 and 2008.

Asset write offs in 2008 of US$24.0 million related to the Chablis (US$11.4 million), Oak (US$6.1 million) and Spain (US$6.1 million) assets in Q4 2008 and Biliton asset (US$0.4 million) in Q1 2008. The aggregate asset write off was split in respect of E&E assets (US$23.2 million), Goodwill (US$0.4 million) and other assets (US$0.4 million). The asset write offs of US$9.3 million during 2007 comprised US$9.0 million of Biliton PSC costs and US$0.3 million from relinquished licences in the UK.

Share-based payment costs of US$1.8 million reflect allocations of charges related to share option grants made during the course of 2005, 2006, 2007 and 2008 and compare with costs of US$2.0 million for 2007. The decline in the charge for options granted in 2005, 2006 and 2007 has generally offset the incremental charge generated from further share options granted in March and November 2008.

Negligible depletion and depreciation charges in all periods represent office equipment and fixtures and fittings. Those costs of petroleum and natural gas properties classified as exploration and evaluation assets are not currently subject to such charges pending further evaluation. The balance of Kambuna development costs is held within plant, property and equipment and will be depleted once production commences.

In August 2008 the Company completed the sale of a 15% interest in the Glagah Kambuna TAC to a subsidiary of Salamander Energy plc (‘Salamander’) for consideration of US$52.7 million including working capital. This disposal generated a profit of US$36.6 million after deducting the relevant proportional element of book development costs.

Finance revenue, comprising interest income of US$1.8 million for 2008, compares with US$2.7 million for 2007. The decrease from last year is due to both a reduction in average cash deposit balances held through the respective years and reduced average interest rate yields earned in 2008.

Finance costs consist of interest payable, issue costs spread over the term of the bank loan facility, and other fees. The first drawdown on the senior secured debt facility occurred soon after the facility was arranged in Q4 2007 and a second drawdown occurred in June 2008. The increase of US$2.8 million from US$0.3 million in 2007 to US$3.1 million in 2008 results from a full year of costs being charged in 2008 following the facility arrangement late in 2007.

The net taxation credit from continuing operations was US$0.2 million in 2008 and US$0.4 million in 2007. Expenditures during 2005, 2006, 2007 and 2008 have reduced any potential current income tax expense arising for 2006, 2007 and 2008 to US$ nil.

The results from discontinued operations arise following the disposal of the Company’s Norwegian activities noted above. The accounting profit in 2007 was largely generated from tax recoveries recognised in the period.

The net loss per share of US$0.01 for 2008 compares to a net loss per share of US$0.09 for 2007.

Summary of Quarterly Results

Quarter ended:	31 Mar US$000	30 Jun US$000	30 Sep US$000	31 Dec US$000
2008				
Sales revenue	-	-	-	-
(Loss)/profit for the quarter	(3,326)	(4,275)	33,516	(26,886)
Basic and diluted loss per share US$	(0.02)	(0.02)	-	(0.16)
Basic earnings per share US$	-	-	0.19	-
Diluted earnings per share US$	-	-	0.19	-
2007				
Sales revenue	-	-	-	-
(Loss)/profit for the quarter	(1,595)	(1,587)	1,237	(11,684)
Basic and diluted loss per share US$	(0.01)	(0.01)	-	(0.08)
Basic earnings per share US$	-	-	0.01	-
Diluted earnings per share US$	-	-	0.01	-

The fourth quarter 2008 loss includes asset write offs of US$23.6 million in regard 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.

The fourth quarter 2007 loss includes asset write offs of US$9.0 million in regard to the Biliton PSC.

Working Capital, Liquidity and Capital Resources

Current Assets and Liabilities

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

	31 December 2008 US$000	31 December 2007 US$000
Current assets:		
Inventories	4,618	6,991
Trade and other receivables	7,069	21,906
Tax receivable	-	3,387
Cash and cash equivalents	56,822	22,638
Total Current assets	68,509	54,922
Less Current liabilities:		
Trade and other payables	(14,599)	(23,604)
Financial liabilities	(32,105)	-
Net Current assets	21,805	31,318

At 31 December 2008, the Company had net current assets of US$21.8 million which comprised current assets of US$68.5 million less current liabilities of US$46.7 million, giving an overall decrease in working capital of US$9.5 million in the year.

Inventories decreased from US$7.0 million to US$4.6 million over the year as materials were utilised in the Kambuna drilling programme and the Company reduced its working interest in the joint venture balances held.

Trade and other receivables at 31 December 2008 totalled US$7.1 million, and included recoverable amounts from partners in Joint Venture operations in the UK and Indonesia, prepayments and sundry UK and Indonesian working capital balances. Significant amounts due as at 30 September 2008 from the Kutai disposal (US$2.7 million) and Chablis farm-out (US$1.6 million) were recovered in Q4 2008. The 2007 year end balance of US$21.9 million included a US$9.4 million upfront deposit payment for the Global Santa Fe drilling rig for Indonesian operations, which was utilised during the 2008 Indonesian drilling campaign and accounts for a significant proportion of the US$14.8 million decrease in balance over the year.

The tax receivable as at 31 December 2007 represented expected recovery of exploration expenditure from the Norwegian fiscal authorities, which was received in full in December 2008.

Cash and cash equivalents increased from US$22.6 million to US$56.8 million in the year. The Company raised additional new funds in Q1 2008 of US$48.6 million through the issue of shares, received US$25.0 million in further draw-downs on its loan facility and received US$52.7 million from the Kambuna disposal in Q3 2008. These cash inflows were partially offset by the significant capital expenditure on the Kambuna development and appraisal drilling in the UK on Chablis. 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.

Trade and other payables of US$14.6 million at 31 December 2008 chiefly include significant trade creditors and accruals from the Kambuna development and Chablis appraisal well drilling. Other smaller items include sundry creditors and accruals for administrative expenses and other corporate costs.

Financial liabilities are represented by the first drawdown of approximately £5.0 million under the senior secured debt facility, which occurred in Q4 2007, and second drawdown of US$25.0 million in June 2008. The total is disclosed net of the unamortised portion of allocated issue costs.

Long-Term Assets and Liabilities

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

	31 December 2008 US$000	31 December 2007 US$000
Exploration and evaluation assets	69,711	71,874
Property, plant and equipment	68,526	19,543
Goodwill	295	768
Financial assets	1,500	4,680
Long-term other receivables	3,945	1,224
Financial liabilities	-	(9,582)
Deferred income tax liabilities	(295)	(3,910)

During 2008, total investments in petroleum and natural gas properties, excluding property, plant and equipment and represented by exploration and evaluation assets, decreased from US$71.9 million to US$69.7 million. The net US$2.2 million decrease consists of US$27.2 million of additions (net of disposal proceeds and back costs received from Kutai and Chablis), less US$23.3 million of Spain, Chablis and Oak asset write offs and US$6.1 million of Norwegian assets disposed.

The US$27.2 million of additions were incurred on the following assets:

In South East Asia, US$7.2 million was incurred in Vietnam on a seismic survey and preparations for drilling, US$3.8 million was incurred on seismic, exploration work and G&A on the Kutai concession in Indonesia and US$1.0 million on East Seruway.

In the UK & Western Europe, US$8.0 million was spent on the Chablis site survey and appraisal drilling, US$4.3 million of expenditure was incurred in other UK and Ireland assets on exploration work and G&A, including the Columbus FDP. US$1.2 million of expenditure related to Spain and US$1.7 million to Norway in 1H 2008 prior to the announcement of the Norwegian interest disposal.

During 2008, total investments included in property, plant and equipment increased from US$19.6 million to US$68.5 million. The US$48.9 million increase is caused by US$62.6 million of additions on the Kambuna development less a deduction of the proportionate share of Kambuna book costs (as at the effective date of the disposal of the part interest of 15%). The property, plant and equipment also includes immaterial balances of US$0.3 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$0.5 million following the partial disposal of the Kambuna interest (US$0.1 million) and Chablis and Spain write offs of US$0.3 million and US$0.1 million respectively.

Financial assets include US$1.5 million of restricted cash deposits. The US$4.7 million of restricted cash deposits, classified as financial assets as at Q4 2007, are now included within cash and cash equivalents as during Q3 2008 the applicable restrictions for use were lifted during the quarter.

Long-term other receivables of US$3.9 million are represented by value added tax ("VAT") on Indonesian capital spend, which will be recovered from future production.

Financial liabilities represented by draw-downs under the senior secured debt facility are now classified in current liabilities.

The retained deferred income tax liability of US$0.3 million arises in respect of certain capitalised assets retained in the group. Liabilities previously recognised as arising from capitalised Norwegian exploration and evaluation assets were reclassified at Q2 2008 as part of the disposal group held for sale. These items were cleared in Q4 2008 following completion of the Norwegian transaction noted above.

<u>Shareholders' Equity</u>

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

	31 December 2008 US$000	31 December 2007 US$000
Total share capital	207,633	158,871
Other reserves	15,510	13,729
Accumulated deficit	(57,656)	(56,685)

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

Issued share capital during 2008 was increased by the issue of 19,826,954 ordinary shares at £1.02 and 4,943,400 at Cdn$2.10, and by the issue of 100,000 ordinary shares at Cdn$1.80 following the exercise of share options.

Other reserves mainly include amounts credited in respect of cumulative share-based payment charges. The increase in other reserves from US$13.7 million to US$15.5 million reflects a credit to equity in respect of share-based payment charges in 2008.

Capital Resources

Lease commitments

At 31 December 2008, Serica had US$21.8 million of net working capital, no long-term debt and 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 years as follows:

	US$000
31 December 2009	328
31 December 2010	72

Capital expenditure commitments, obligations and plans

The Company's most significant planned capital expenditure commitments for 2009 are those required to fund the development activity of the Kambuna field. As at 31 December 2008, the Company's share of expected outstanding capital costs on the project totalled approximately US$50 million. These expected costs include amounts contracted for but not provided in 2008. It is fully expected that these expenditures will be funded from the debt facility as and when draw-downs are required.

In the UK and NW Europe, the Chablis appraisal well spudded in December 2008 and drilling completed in January 2009. As at 31 December 2008 the Company's share of outstanding capital costs in respect of Chablis drilling totalled approximately US$6 million.

In addition to the significant planned expenditures noted above, 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 years as follows:

Year ending 31 December 2009 US$2,518,000
Year ending 31 December 2010 US$16,400,000

These obligations reflect the Company's share of interests in the defined work programmes and were not formally contracted at 31 December 2008. 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.

Available financing resources

Serica expects that it will shortly enjoy its first significant revenues and operational cash inflows from the Kambuna field which will be important to the future growth and development of the Company. In the absence of revenues currently generated from oil and gas production, Serica intends to utilise its existing cash balances 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. At 31 December 2008, the Group had available approximately US$85 million of committed borrowing facilities for which all conditions precedent had been met, of which US$32 million had been drawn down and US$53 million was undrawn. The most significant part of the facility, which included a corporate element of US$10 million, was to fund the development expenditures, particularly on the Kambuna field. The ability to draw down 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. On the Kambuna field the key milestones for 2008 were gas sales heads of agreement being in place, compliance with environmental policy, and commercial construction contracts agreed for the relevant stages of development all of which were achieved and US$25 million was drawn in June of that year. In March 2009, a further US$13 million draw down was made and as at 24 April 2009 the total loan drawn down was US$45 million.

At 31 December 2008 availability of more than US$85 million under the facility was dependent on the achievement of relevant conditions precedent and projections for development assets within the Group's portfolio and forecasts of commodity prices.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

The Company's significant accounting policies are detailed in note 2 to the attached audited 2008 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 necessarily involve certain judgments with regard to whether the asset will ultimately prove to be recoverable. A key source of estimation uncertainty that impacts the Company relates to 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. 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.

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 2009/10 this is managed in the short-term through selecting treasury deposit periods of one to three months. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise 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-down 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 December 2008, the following employee share options were outstanding: -

	Expiry Date	Number	Exercise cost Cdn$
Share options	Feb 2009*	247,500	495,000
	May 2009	100,000	200,000
	Dec 2009	275,000	275,000
	Jan 2010	600,000	600,000
	Jun 2010	1,100,000	1,980,000
			Exercise cost £
	Nov 2010	561,000	544,170
	Jan 2011	1,275,000	1,319,625
	May 2011	180,000	172,800
	June 2011	270,000	259,200
	Nov 2011	120,000	134,400
	Jan 2012	1,056,000	1,077,120
	May 2012	405,000	421,200
	Aug 2012	1,200,000	1,182,000
	March 2013	1,812,000	1,359,000
	March 2013	850,000	697,000
	October 2013	750,000	300,000

* Note - Expired as at 27 April 2009

In January 2009 750,000 share options were granted to certain employees other than directors with an exercise cost of £0.32 and an expiry date of January 2014.

Outstanding Share Capital

As at 24 April 2009, the Company had 176,518,311 ordinary shares issued and outstanding.

Business Risk and Uncertainties

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

Operational risks include 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.

Key Performance Indicators ("KPIs")

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

Nature and Continuance of Operations

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

The Company's financial statements have been prepared with the assumption that the Company will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company currently has no operating revenues and during the year ended 31 December 2008 generated a loss of US$0.6 million from continuing operations, but expects that it will shortly earn its first revenues from the Kambuna field. At 31 December 2008 the Company held cash and cash equivalents of US$56.8 million and a financial asset of restricted cash of US$1.5 million. The Company intends to utilise its existing cash balances 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 M,D&A.

Additional Information

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

Approved on Behalf of the Board

Paul Ellis	Christopher Hearne
Chief Executive Officer	Finance Director

27 April 2009

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.

Serica Energy plc
Group Income Statement
for the year ended 31 December

	Notes	**2008 US$000**	2007 US$000
Sales revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses	4	(8,628)	(7,813)
Foreign exchange (loss)/gain		(370)	394
Pre-licence costs		(1,150)	(287)
Asset write offs	13,15	(24,034)	(9,282)
Share-based payments		(1,781)	(1,962)
Depreciation and depletion	5	(146)	(149)
Operating loss before net finance revenue and tax		(36,109)	(19,099)
Profit on disposal	8 a)	36,620	-
Finance revenue	9	1,823	2,669
Finance costs	10	(3,138)	(321)
Loss before taxation		(804)	(16,751)
Taxation credit for the year	11	228	432
Loss for the year from continuing operations		(576)	(16,319)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	8 b)	(395)	2,690
Loss for the year		(971)	(13,629)
Loss per ordinary share (LPS)			
Basic and diluted LPS – continuing operations (US$)	12	(0.003)	(0.108)
Basic and diluted LPS on loss for the year (US$)	12	(0.006)	(0.090)

Serica Energy plc
Balance Sheet
As at 31 December

		Group		Company	
		2008	2007	**2008**	2007
	Note	**US$000**	US$000	**US$000**	US$000
Non-current assets					
Exploration & evaluation assets	13	69,711	71,874	-	-
Property, plant and equipment	14	68,526	19,543	-	-
Goodwill	15	295	768	-	-
Investments in subsidiaries	17	-	-	130,684	130,684
Financial assets	18	1,500	4,680	1,500	4,680
Other receivables	18	3,945	1,224	-	-
		143,977	98,089	132,184	135,364
Current assets					
Inventories	19	4,618	6,991	-	-
Trade and other receivables	20	7,069	21,906	157,856	117,373
Tax receivable	20	-	3,387	-	-
Cash and cash equivalents	21	56,822	22,638	37,758	7,172
		68,509	54,922	195,614	124,545
TOTAL ASSETS		212,486	153,011	327,798	259,909
Current liabilities					
Trade and other payables	22	(14,599)	(23,604)	(8,366)	(6,376)
Financial liabilities	23	(32,105)	-	(32,105)	-
Non-current liabilities					
Financial liabilities	23	-	(9,582)	-	(9,582)
Deferred income tax liabilities	11d)	(295)	(3,910)	-	-
TOTAL LIABILITIES		(46,999)	(37,096)	(40,471)	(15,958)
NET ASSETS		165,487	115,915	287,327	243,951
Share capital	25	207,633	158,871	172,361	123,599
Merger reserve	17	-	-	112,174	112,174
Other reserves		15,510	13,729	15,510	13,729
Accumulated deficit		(57,656)	(56,685)	(12,718)	(5,551)
TOTAL EQUITY		165,487	115,915	287,327	243,951

Approved by the Board on 27 April 2009

Paul Ellis	Chris Hearne
Chief Executive Officer	Finance Director
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Serica Energy plc
Statement of Changes in Equity
For the year ended 31 December 2008

Group

	Share capital US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2007	157,283	11,767	(43,056)	125,994
Proceeds on exercise of options	1,588	-	-	1,588
Share-based payments	-	1,962	-	1,962
Loss for the year	-	-	(13,629)	(13,629)
At 31 December 2007	158,871	13,729	(56,685)	115,915
Issue of share capital	51,046	-	-	51,046
Costs associated with shares issued	(2,465)	-	-	(2,465)
Proceeds on exercise of options	181	-	-	181
Share-based payments	-	1,781	-	1,781
Loss for the year	-	-	(971)	(971)
At 31 December 2008	207,633	15,510	(57,656)	165,487

Company

	Share capital US$000	Merger reserve US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2007	122,011	112,174	11,767	(2,097)	243,855
Proceeds on exercise of options	1,588	-	-	-	1,588
Share-based payments	-	-	1,962	-	1,962
Loss for the year	-	-	-	(3,454)	(3,454)
At 31 December 2007	123,599	112,174	13,729	(5,551)	243,951
Issue of share capital	51,046	-	-	-	51,046
Costs associated with shares issued	(2,465)	-	-	-	(2,465)
Proceeds on exercise of options	181	-	-	-	181
Share-based payments	-	-	1,781	-	1,781
Loss for the year	-	-	-	(7,167)	(7,167)
At 31 December 2008	172,361	112,174	15,510	(12,718)	287,327

Serica Energy plc
Cash Flow Statement
For the year ended 31 December

	Group **2008 US$000**	2007 US$000	Company **2008 US$000**	2007 US$000
Cash flows from operating activities:				
Operating loss (including discontinued)	(36,165)	(19,271)	(5,320)	(5,011)
Adjustments for:				
Depreciation and depletion	146	149	-	-
Asset write offs	24,034	9,282	-	-
Share-based payments	1,781	1,962	1,781	1,962
Decrease/(increase) in trade and other receivables	11,528	8,093	488	(2,230)
Decrease/(increase) in inventories	2,092	(206)	-	-
(Decrease)/increase in trade and other payables	(11,981)	(12,895)	1,643	331
Cash outflow from operations	(8,565)	(12,886)	(1,408)	(4,948)
Taxes received	3,227	2,717	-	-
Net cash outflow from operations	(5,338)	(10,169)	(1,408)	(4,948)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(62,605)	(185)	-	-
Purchase of E&E assets	(27,939)	(58,766)	-	-
Funding provided to Group subsidiaries	-	-	(41,697)	(45,054)
Funding provided for work programmes	-	(4,680)	-	(4,680)
Proceeds from disposals of plant, property and equipment	52,743	-	-	-
Proceeds from disposals of E&E assets	3,088	5,000	-	-
Interest received	1,898	2,873	1,354	1,497
Net cash used in investing activities	(32,815)	(55,758)	(40,343)	(48,237)
Cash proceeds from financing activities:				
Net proceeds from issue of shares	48,581	-	48,581	-
Proceeds on exercise of options	181	1,588	181	1,588
Proceeds from loans and borrowings (net)	25,000	9,671	25,000	9,671
Finance costs paid	(1,425)	-	(1,425)	-
Net cash from financing activities	72,337	11,259	72,337	11,259
Net increase/(decrease) in cash and cash equivalents	34,184	(54,668)	30,586	(41,926)
Cash and cash equivalents at 1 January	22,638	77,306	7,172	49,098
Cash and cash equivalents at 31 December	56,822	22,638	37,758	7,172

Serica Energy plc

Notes to the Financial Statements

1. Authorisation of the Financial Statements and Statement of Compliance with IFRS

The Group's and Company's financial statements for the year ended 31 December 2008 were authorised for issue by the Board of Directors on 27 April 2009 and the balance sheets were signed on the Board's behalf by Paul Ellis and Chris Hearne. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales. The principal activity of the Company and the Group is to identify, acquire and subsequently exploit oil and gas reserves primarily in Asia and Europe. The Company's ordinary shares are traded on AIM and the TSX-V.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2008. The Company's financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Company for the period ended 31 December 2008 and as applied in accordance with the provisions of the Companies Act 1985. The Group's financial statements are also prepared in accordance with IFRS as issued by the IASB. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes. The deficit dealt with in the financial statements of the parent Company was US$7,167,000 (2007: US$3,454,000).

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

2. Accounting Policies

Basis of Preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2008.

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

Going Concern

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above. As at 31 December 2008 the Group had US$32.1 million of debt and US$56.8 million of available cash.

The Directors are required to consider the availability of resources to meet the Group and Company's liabilities for the forseeable future. As described in the MD&A, the current business environment is challenging and access to new equity and debt remains uncertain. The Group's existing debt facility must be refinanced by November 2009. As of 24 April 2009 the Group's debt facility was US$45 million drawn down resulting in a net debt position of some US$7 million. Further draw downs and ongoing expenditure are planned prior to refinancing.

Although the refinancing cannot be considered certain in the current environment, management remains confident that it can be achieved on acceptable terms. This is based upon the following factors: the Kambuna field is expected to commence production in mid 2009; gas sales contracts for Kambuna have been finalised at fixed prices and any fluctuations in condensate prices will be largely offset by variations in cost recovery entitlement; the Company has a record of prudent financial management, including the raising of capital through farm down and the sale of part of its Kambuna field interest; and, the Company has an established relationship with its existing banking syndicate. Discussions are already underway on a replacement facility. The option of further asset sales is also open to the Company.

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

Use of judgement and estimates and key sources of estimation uncertainty

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognised in the financial statements are: the impairment of the Group's assets (including goodwill, oil & gas development assets and E&E assets), share-based payment costs and contingencies.

Impairment

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

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

Share-based payment costs

The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgments relating to the continuing participation of employees (see note 27).

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Basis of Consolidation

The consolidated financial statements include the accounts of Serica Energy plc (the "Company") and its wholly owned subsidiaries Serica Energy Corporation, Serica Energy Holdings B.V., Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited, Serica Energia Iberica S.L., Serica Holdings UK Limited, Serica Energy (UK) Limited, PDA Lematang Limited, APD (Asahan) Limited, APD (Biliton) Limited, Serica Energy Pte Limited, Serica Kutei B.V., Serica Nam Con Son B.V., Serica Glagah Kambuna B.V. and Serica East Seruway B.V.. Together these comprise the "Group".

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

Foreign Currency Translation

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

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

Business Combinations and Goodwill

Business combinations are accounted for using the purchase method of accounting. The purchase price of an acquisition is measured as the cash paid plus the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

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

Joint Venture Activities

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

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

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

Upon the successful development of an oil or gas field in a contract area, the cumulative excess of paying interest over working interest in that contract is generally repaid out of the field production revenue attributable to the carried interest holder.

Exploration and Evaluation Assets

As allowed under IFRS 6 and in accordance with clarification issued by the International Financial Reporting Interpretations Committee, the Group has continued to apply its existing accounting policy to exploration and evaluation activity, subject to the specific requirements of IFRS 6. The Group will continue to monitor the application of these policies in light of expected future guidance on accounting for oil and gas activities.

Pre-licence Award Costs

Costs incurred prior to the award of oil and gas licences, concessions and other exploration rights are expensed in the income statement.

Exploration and Evaluation

The costs of exploring for and evaluating oil and gas properties, including the costs of acquiring rights to explore, geological and geophysical studies, exploratory drilling and directly related overheads, are capitalised and classified as intangible E&E assets. These costs are directly attributed to regional cost centres for the purposes of impairment testing; Indonesia, Vietnam, UK & North West Europe and Spain.

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

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

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

Asset Purchases and Disposals

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

Property, Plant and Equipment – Oil and gas properties

Capitalisation

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

Depreciation

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

Impairment

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

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

Asset Disposals

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

Decommissioning

Liabilities for decommissioning costs are recognised when the Group has an obligation to dismantle and remove a production, transportation or processing facility and to restore the site on which it is located. Liabilities may arise upon construction of such facilities, upon acquisition or through a subsequent change in legislation or regulations. The amount recognised is the estimated present value of future expenditure determined in accordance with local conditions and requirements. A corresponding tangible item of property, plant and equipment equivalent to the provision is also created. The Group did not carry any provision for decommissioning costs during 2007 or 2008.

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

Property, Plant and Equipment - Other

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

Inventories

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

Investments

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

Financial Instruments

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

Financial assets

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

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

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

Equity

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

Revenue Recognition

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

Finance Revenue

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

Finance Costs

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

Borrowing costs

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

Share-Based Payment Transactions

The Company operates equity settled schemes under which employees may be awarded share options from time-to-time. The fair value of each option at the date of the grant is estimated using an appropriate pricing model based upon the option price, the share price at the date of issue, market parameters (if any), volatility and the life of the option. It is assumed that all performance criteria are met.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional on a market condition. In this case such awards are treated as vesting provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. Estimated associated national insurance charges are expensed in the income statement on an accruals basis.

Income Taxes

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

- temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and

- temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the income statement nor taxable profit or loss.

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

Earnings Per Share

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

New standards and interpretations not applied

At the date of the authorisation of these financial statements, certain new Standards, amendments and Interpretations to existing Standards have been published but are not yet effective. The Group has not early adopted any of these pronouncements. The new Standards, amendments and Interpretations that are expected to be relevant to the Group and Company's financial statements are as follows:

International Accounting Standards (IAS / IFRSs)		**Effective date**
IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendment)	1 January 2009
IFRS 2	IFRS 2 – Vesting Conditions and Cancellations (Amendment)	1 January 2009
IFRS 3	Business Combinations (Revised January 2008)	1 July 2009
IFRS 7	Financial instruments: Disclosures (Amendment)	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (Revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (Revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (Amendment)	1 July 2009
IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation (Amendment)	1 January 2009
IAS 39	Eligible Hedged Items (Amendment)	1 July 2009
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009

The Directors do not anticipate that the adoption of these statements and interpretations will have a material impact on the Group’s financial statements in the period of initial application.