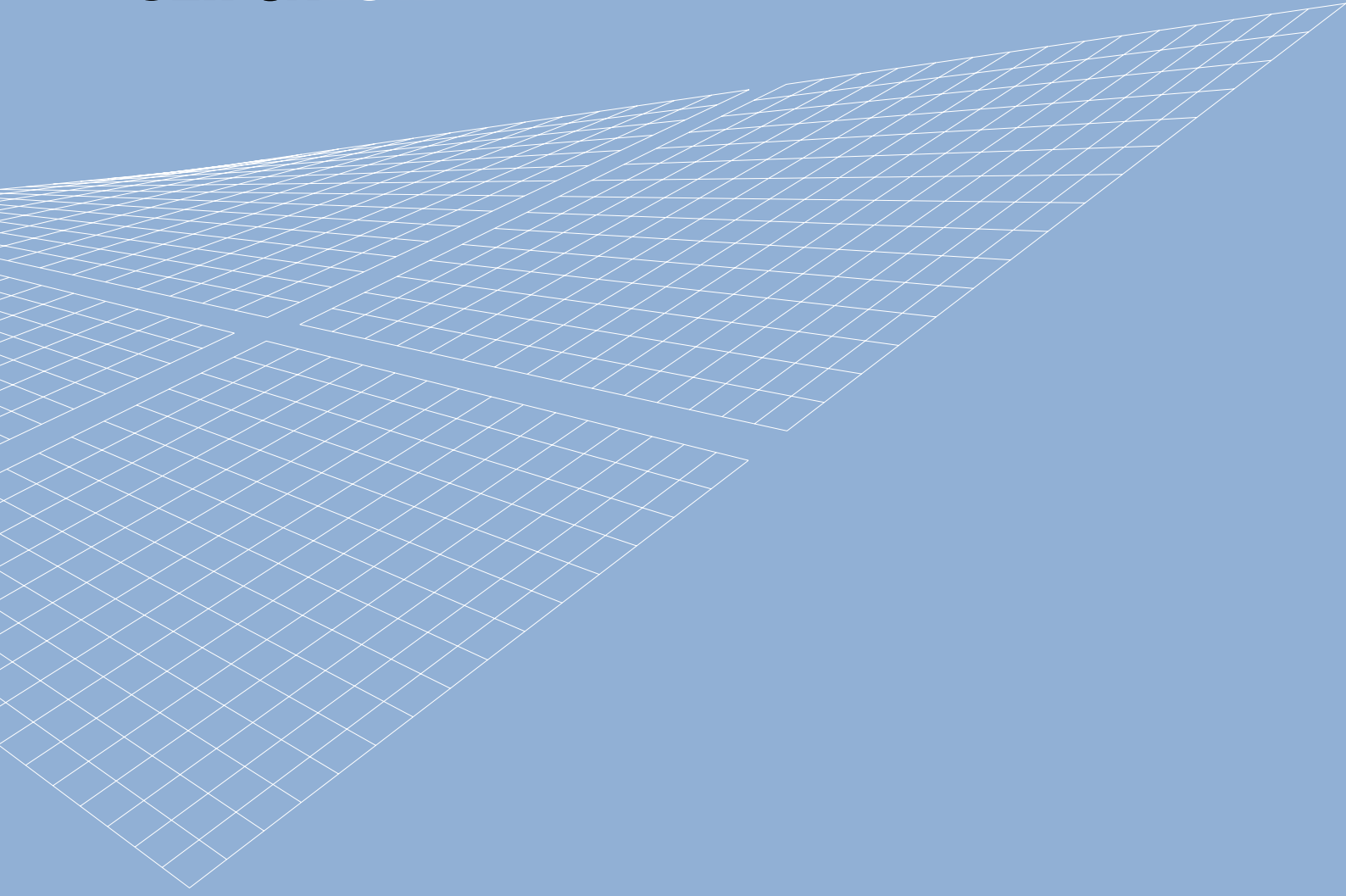




SERICA2012



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

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

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HIGHLIGHTS

Financial

- End year cash balances US\$22.3 million, no debt
- Kambuna field generated net cash of US\$9.2 million during the year but gross loss of US\$3.9 million after non-cash depletion charges
- Loss for the year of US\$24.7 million – includes cost of Spaniards well (US\$8.8 million) and impairment charges to Kambuna field as it nears end of economic life (US\$4.4 million)
- Existing resources cover 2013 work programme and commitments

Operations

- Overall targets met in 2012
- Secured preliminary development consent for the Columbus Field and took development to tender document stage
- Completed four farmouts - Luderitz Blocks, Fom Draa, Sidi Moussa and UK Block 22/19c with a fifth, UK Blocks 113/26b & 27c (Doyle), awaiting completion
- Net benefit to Company from farmouts in excess of US\$40 million
- Completed largest continuous 3D seismic acquisition programme offshore Namibia
- Preparations for drilling Doyle and two wells offshore Morocco have commenced
- 2H2013 drilling decision in Namibia awaits outcome of seismic interpretation – proceeding well

Assets

Columbus field:

- Discussions in hand to take Columbus production direct to Lomond field
- Alternative routes under review

Southern North Sea, York area:

- 3D seismic survey underway to evaluate gas prospects adjacent to the Centrica operated producing York gas field

East Irish Sea:

- Site survey recently completed over Doyle ready to commence drilling operations

Norway:

- Bream Field awaits development decision by partner

Namibia:

- Completed 4,180 square kilometre 3D seismic survey at end of September
- Fast track data is excellent quality and early indications very encouraging
- Serica estimate gross P50 resource potential of 670 mmbbls for Prospect B with substantial upside supported by independent report
- BP to decide in 2H2013 on exercising option to drill well

Morocco:

- Fom Draa: Transocean Cajun Express deep water semi-submersible drilling rig contracted with expected spud early 4Q2013
- Sidi Moussa: Noble Paul Romano deep water, semi-submersible rig contracted with expected spud early 1Q2014

Ireland:

- Rockall Basin: Discussions taking place with potential partners for Muckish prospect
- Slyne Basin: Farm-out campaign planned to follow-up Serica 2009 oil discovery

Outlook

This year, our targets are to strengthen the gains of last year

- to bring Columbus to project sanction and complete the financing arrangements, which had reached an advanced stage
- to complete the interpretation of the large Namibian seismic survey, on-track for third quarter, to enable a drilling decision to be made in second half
- to see drilling commence in Morocco, scheduled to take place in the fourth quarter, and
- to achieve a strategic partnership for operations in our Rockall and Slyne Basin blocks offshore Ireland, which is beginning to attract industry interest and where we see great potential

SUMMARY FOR 2012

	Proven and probable 2012	<i>Proven and probable 2011</i>
Company net oil and gas reserves		
(working interest basis)		
At 31 December		
Gas – million cubic feet	23,400	<i>28,000</i>
Condensate and LPG – barrels	1,600,000	<i>1,900,000</i>
Total – barrels of oil equivalent	5,500,000	<i>6,800,000</i>
Financial position		
Market capitalisation – US\$	74 million	<i>50 million</i>
Net current assets – US\$	19 million	<i>21 million</i>
Cash – US\$	22 million	<i>20 million</i>
Number of shares in issue	182,770,311	<i>176,660,311</i>
Number of shares fully diluted	193,728,771	<i>188,743,311</i>

LICENCE INTERESTS

Serica's business activities are focussed in two separate hubs – the UK Offshore area, including an economic interest in the Bream field in Norway, and a substantial portfolio of properties in four distinct Atlantic margin basins. The Company retains an interest in the producing Kambuna field in Indonesia which is nearing the end of its economic producing life.

The following table summarises the Company's licences as at 31 December 2012.

Block(s)	Description	Role	% at 31/12/12	Location
UK				
15/21g	Exploration	Non-operator	21%	Central North Sea
15/21a (part)	Exploration	Non-operator	21%	Central North Sea
22/19c	Exploration	Non-operator	15% ⁽¹⁾	Central North Sea
23/16f	Columbus Field – Development planned	Operator	50%	Central North Sea
47/2b (split)	Exploration	Non-operator	37.5%	Southern North Sea
47/3g (split)	Exploration	Non-operator	37.5%	Southern North Sea
47/7 (split)	Exploration	Non-operator	37.5%	Southern North Sea
47/8d (part)	Exploration	Non-operator	37.5%	Southern North Sea
110/8b	Exploration	Operator	100%	East Irish Sea
113/26b	Exploration	Operator	65% ⁽²⁾	East Irish Sea
113/27c	Exploration	Operator	65% ⁽²⁾	East Irish Sea
210/19a	Exploration	Operator	100% ⁽³⁾	Northern North Sea
210/20a	Exploration	Operator	100% ⁽³⁾	Northern 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
5/17	Exploration	Operator	100%	Rockall Basin
5/18	Exploration	Operator	100%	Rockall Basin
5/22	Exploration	Operator	100%	Rockall Basin
5/23	Exploration	Operator	100%	Rockall Basin
5/27	Exploration	Operator	100%	Rockall Basin
5/28	Exploration	Operator	100%	Rockall Basin
11/5	Exploration	Operator	100%	Rockall Basin
11/10	Exploration	Operator	100%	Rockall Basin
11/15	Exploration	Operator	100%	Rockall Basin
12/1	Exploration	Operator	100%	Rockall Basin
12/6	Exploration	Operator	100%	Rockall Basin
12/11 (part)	Exploration	Operator	100%	Rockall Basin
Namibia				
2512A	Exploration	Operator	55% ⁽⁴⁾	Luderitz Basin
2513A	Exploration	Operator	55% ⁽⁴⁾	Luderitz Basin
2513B	Exploration	Operator	55% ⁽⁴⁾	Luderitz Basin
2612A (part)	Exploration	Operator	55% ⁽⁴⁾	Luderitz Basin
Morocco				
Foum Draa	Exploration	Non-operator	8.3333% ⁽⁵⁾	Tarfaya-Ifni Basin
Sidi Moussa	Exploration	Non-operator	5% ⁽⁶⁾	Tarfaya-Ifni Basin
Indonesia				
Glagah Kambuna TAC	Kambuna Field Production	Non-operator	25%	Offshore North Sumatra

Notes:

- (1) Interest 15% following completion of a farm-out to JX Nippon under which JX Nippon will meet all of the Company's costs up to and including, at JX Nippon's discretion, the drilling of one well.
- (2) Interest subject to a farm-out agreement.
- (3) Interest relinquished in January 2013.
- (4) Interest subject to an option held by BP which, if exercised, will reduce to 17.5% in return for BP meeting the full cost of drilling and testing a well to the Barremian
- (5) Interest 8.3333% following completion of farm-out to Cairn Energy in January 2013 under which Cairn Energy will meet the cost of drilling one well up to a maximum gross cost of US\$60 million.
- (6) Interest 5% following completion of farm-out to Genel Energy in March 2013 under which Genel Energy will meet the cost of drilling one well up to a maximum gross cost of US\$50 million.

CHAIRMAN'S STATEMENT

Dear Shareholder

Serica started 2012 in pursuit of four main objectives; to complete the farm-out of the Luderitz Basin blocks in Namibia, to undertake the large 3D seismic acquisition programme over those blocks, to secure farm-outs for each of our two blocks offshore Morocco and to reach an agreement with BG to enable development work to commence on the Columbus field in the North Sea.

Although we have recently run into a need to revise our plans for Columbus, we achieved all of the above objectives set for the year. The Luderitz Basin blocks were farmed out to BP and we successfully completed the 4,180 square kilometre 3D survey, the Moroccan blocks were farmed out to Cairn and Genel respectively and agreement was reached with BG on the cost sharing and transportation agreements to allow Columbus to proceed; sufficient that we went out to tender for the sub-sea work in March this year.

Throughout the year we made very good progress and did so against the backdrop of a strict control of costs which now sees Serica as having boosted its efficiencies and productivity with amongst the lowest G&A costs in its peer group.

This year, our targets are to strengthen the gains of last year; to bring Columbus to project sanction and complete the financing arrangements, which had reached an advanced stage, to complete the interpretation of the large Namibian seismic survey, on-track for mid-year, to see drilling commence in Morocco, scheduled to take place in the fourth quarter, and to achieve a strategic partnership for operations in our Rockall and Slyne Basin blocks offshore Ireland, which is beginning to attract industry interest and where we see great potential.

The decision taken by BG in early April this year not to proceed with the Bridge Linked Platform (BLP) to Lomond has clearly impacted our Columbus plans. Discussions are taking place with BG with a view to connecting Columbus directly to the Lomond platform, thereby securing an alternative export route which would require a minimum of re-engineering. There does not appear to be any technical reason why this should not be possible. However, the outcome will rest on whether we are able to agree reasonable commercial terms in the time frame. Discussions are ongoing but the company is also reviewing alternative routes for the export of gas and liquids production from Columbus should agreement with BG turn out not to be possible.

We have made very good progress elsewhere. In Namibia we are well advanced with the interpretation of the 3D seismic data acquired last year. Early indicators are very encouraging with very large prospects clearly identified at several levels comprising both four-way dip closed structures and large turbidite channel sand formations. Further encouragement has been received from a recent third party well drilled offshore in the north of Namibia which has recovered good quality oil and,

importantly, has demonstrated the presence of deeper, mature source rocks at a level capable of charging the prospects in Serica's blocks. Following completion of the full processing and interpretation of all results we shall be discussing with BP and partners the evidence to support an early drilling campaign and we will be making a decision in the second half of this year.

In Morocco we are participating in a well to be drilled by Cairn in the offshore Fom Draa block in the last quarter of this year and a second well to be drilled by Genel in the neighbouring Sidi Moussa block early next year. Both wells and our Namibia licence, on all of which we are largely carried, are high impact so we have a pretty eventful few months ahead of us.

As I mentioned above, Serica has taken major steps to control all expenditures and we have been able to run the Company through a very successful programme of farm-outs and disposals of non-core assets. In addition to our Namibian and Moroccan farm-outs we also farmed-out an interest in North Sea Block 22/19c and have agreed a farm-out of the Doyle prospect in the East Irish Sea. The combination of these efforts has resulted in shareholders having exposure to a major drilling programme in emerging frontier areas at minimum cost and risk.

During this period we have also benefitted from cash flow derived from the Kambuna field production in Indonesia. This field is now coming to the end of its commercial life and we expect to hand the production facilities over to Pertamina in June or July.

With cessation of Kambuna production the Directors are reviewing the Company's limited working capital position and the longer term need to develop our wider asset base and provide financial capacity for future years. The good progress that we had made with BG on the development of the Columbus field was intended to provide the basis to take the Company through to its next stage and financing arrangements were well in hand to enable us to achieve this. However, the current uncertainty created by BG's decision to cancel the BLP has disrupted these financing plans.

The year-end net cash balance of US\$22.3 million, coupled with the major benefits of the Company's farm-out efforts in 2012 and control over overhead costs, is sufficient to meet the Company's projected cash requirements to the end of 2013 on the current programme. The Board is examining a range of strategic options to address the resources needed to secure the full potential of the Company's assets and provide for future growth for the period beyond that date. In reviewing the alternatives it is the Board's objective not only to secure the finance to underpin the growth of its business into 2014 and future years but also to protect and enhance the value of the Company's assets and to maximise the value to the benefit of shareholders.

We shall be providing shareholders with an update of the Company's activities at the forthcoming Annual General Meeting to be held on 27 June 2013 when I would hope to be able to report on further progress with the Columbus project. I and my Board colleagues look forward to receiving shareholder input at that time.

During the year we had two non-executive changes with Jonathan Cartwright leaving the Board in June and Jeffrey Harris joining the Board in December following the purchase of a 13.95% interest in the Company by Global Reserve Group LLC, of which Jeffrey is a founder. We welcome him to the Board. This year, Peter Sadler has expressed a wish to return to his country of domicile, Australia. Peter has been a very strong member of our Executive team since he joined in 2008 and the Company owes a great deal to his skills and experience. Peter is standing down as an Executive Director with effect from the conclusion of the Annual General Meeting but I am delighted that we are retaining his input under new contractual arrangements under which he will help us to identify new business opportunities.

I am conscious that I have now served two years as interim CEO. It was the Board's objective that we could have found a new CEO to take the Company forward. This continues to be the intention following completion of our efforts to put the Company on a sound financial footing and establish it as a serious growth contender for future years.

Finally, I think that it goes without saying that the small executive team that we have in Serica have achieved extraordinary success in 2012. Apart from the five farm-outs achieved in 2012, Serica operated one of the largest 3D seismic acquisition programmes shot off Namibia, was technical operator for our Moroccan blocks which resulted in two farm-outs, operator for the Columbus field development, where we have been driving the Columbus project forward, and the Doyle block and is operating the Rockall and Slyne Basin licences offshore Ireland. Their efforts have ensured that the Company has been able to pursue its programme with the minimum of resources and I hope that all shareholders will join me in thanking them.

2013 holds out the promise of being a very exciting year with progress targeted in Namibia, Morocco and Ireland as well as with the Columbus field development. This is a very difficult business in the current climate, particularly for a small company such as Serica, but we have a very strong and experienced team and good assets and I am sure that the efforts we are making will result in future success.

Tony Craven Walker
Chairman and Interim CEO
29 May 2013

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 2012.

Serica is an oil and gas company with exploration and development activities based in the UK, Ireland, Namibia and Morocco, together with a production interest in the Kambuna field in Indonesia and an economic interest in an oilfield

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

The Company is a "designated foreign issuer" as that term is defined under National Instrument 71-102 - Continuous Disclosure and Other Exemptions Relating to Foreign Issuers. The Company is subject to the foreign regulatory requirements of the Alternative Investment Market of the London Stock Exchange in the United Kingdom.

REVIEW OF OPERATIONS

Serica's business activities are focussed in two separate hubs – the UK Offshore area, including an economic interest in the Bream field in Norway, and a substantial portfolio of properties in four distinct Atlantic margin basins. The Company retains an interest in the producing Kambuna field in Indonesia which is nearing the end of its economic producing life.

United Kingdom

Central North Sea: Block 23/16f – Columbus Field Development

Block 23/16f covers an area of approximately 52 square kilometres in the UK Central North Sea and contains the majority of the Columbus gas field. The Columbus field, containing gas rich in condensate, extends from Block 23/16f to the south into Block 23/21 to the south, operated by BG International Limited ("BG"), which includes the Lomond platform and the producing Lomond field. Serica has a 50% interest in Block 23/16f and is operator for the block.

During the first quarter of 2012 all participants in the Columbus field reached agreement on the cost and production sharing arrangements and the detailed terms to provide access for the Columbus field production through the Lomond platform and the CATS and Forties pipeline systems. Under the cost sharing arrangements the participants in the Columbus field (other than BG) would be responsible for the drilling of two production wells, the installation of sub-sea manifolds and the laying of a pipeline to take the two-phase gas and gas-condensate stream to a new Bridge Linked Platform ("BLP"), to be constructed by BG adjacent to the Lomond platform. BG would be responsible for the construction and operation of the BLP and provide access for the Columbus field production through the BLP and Lomond facilities. The tariff and cost sharing terms for the BLP and Lomond facilities reflect these cost sharing arrangements. Serica will be the Operator for the Columbus field facilities with an interest of 33.2%.

Application was made to DECC, on schedule, for the grant of project sanction which would enable discussions on project financing to be completed. In October 2012, notice was received from DECC that the Department was content with the Development Plan for the Columbus field and that, subject to certain standard conditions (including the completion of funding arrangements for the project), the Secretary of State was minded to issue consent for the development and production of the Columbus field in accordance with that plan.

In early March 2013 Serica, as operator of the Columbus field and on behalf of the Columbus field participants, issued tender documents to pre-qualifying contractors for the fabrication, installation and hook-up of sub-sea facilities and the provision of associated sub-sea equipment and systems. This followed the issuing by BG in December 2012 of tender documents for the construction and installation of the BLP, through which Columbus field gas and condensate production would be exported.

In late March 2013, BG informed Serica, as Operator of the Columbus field, that it had decided not to proceed with the construction of the BLP.

As a consequence, the Columbus group are obliged to review other alternatives for the export of Columbus gas and liquids production. This includes the possibility of the Columbus field being tied directly to the Lomond Platform. Serica has reviewed this option with its partners and with BG and all parties believe this to be a technically viable alternative. The impact on the Columbus sub-sea development programme and timetable would be minimal on this basis but the success of this option depends upon being able to agree reasonable commercial terms in the required time frame. Discussions are ongoing but the company is also reviewing several other offtake options.

REVIEW OF OPERATIONS CONTINUED

Independent consultant Netherland, Sewell & Associates ("NSAI") carried out a reserves report on the Columbus field for the end of 2012. This report estimated that the gross Proved plus Probable Reserves of the field are 69.7 bcf of gas and 4.7 mm bbl of liquids, a total of 16.3 mmbbl. Serica holds a 50% interest in those Columbus reserves lying in Block 23/16f. After providing for reserves lying in the adjacent Block, NSAI estimates the Company's share of proved and probable reserves in the field to be 23.1 bcf of sales gas and 1.6 mmbbl of liquids, a net 5.4 mmbbl to Serica.

The field development plan, as submitted to DECC, was designed to evaluate the potential for additional reserves which may exist as an extension to Columbus and this would remain the intention in any revised plan designed to take account of a modified export route.

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

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

In January 2012 an agreement was finalised with the participants of Block 15/21a to combine the area of Block 15/21a covering the discovery with neighbouring Block 15/21g in which Serica had a 30% interest. As a result of this transaction Serica has a 21% interest in the amalgamated area including the Spaniards discovery and was required to contribute a 30% share of the cost of drilling the first well to appraise the discovery and a 17.14% share of the cost of drilling a follow-up well.

In early October the Operator, Premier Oil plc ("Premier"), spudded Spaniards East well 15/21a-60 to evaluate the down-dip potential of the Spaniards accumulation some 1.2 kilometres to the east of the discovery well. On 6 November, it was announced that the well had encountered 75 feet of Jurassic sands but these were interpreted to be water bearing from the log data and the well was, accordingly, being plugged and abandoned. Serica contributed a 30% share of the drilling cost of the well, which was drilled to a total depth of 10,694 feet.

The analysis of the Spaniards East well data confirms that there is little chance of any remaining oil prospectivity in the east of the field. The focus of the forward work programme is to mature the Spaniards West prospect so that a decision can be made whether to drill another well or withdraw from the licence.

Central North Sea: Block 22/19c

Block 22/19c is located approximately 20 kilometres to the west of Serica's Columbus field. Serica currently holds a 15% interest in the block which is operated by JX Nippon.

In September 2012, Serica announced that it had reached agreement with JX Nippon Exploration and Production (U.K.) Limited ("JX Nippon") for the farm-out of UK Central North Sea

Block 22/19c (Licence P.1620), in which Serica held a 100% interest. The transaction was given DECC approval and completed in October. Under the agreement, JX Nippon acquired an operated 85% interest in the licence, with Serica retaining 15%. As consideration, JX Nippon paid US\$250,000 of back cost contributions to Serica and will carry Serica's share of all future costs associated with the licence up to and including, at JX Nippon's discretion, the drilling of an exploration well to the Jurassic or deeper. Serica had previously participated in the drilling of the Oates, Palaeocene Forties sand prospect in 22/19c, with its costs carried by Premier. Following lack of success at Oates, Premier relinquished its 50% interest in the licence which was retained by Serica. It is the prospectivity of deeper, older strata which is now being pursued and a deep prospect has been identified. Further proposals have been received in respect of this block.

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

In December 2011, Blocks 47/2b (Split), 47/3g (Split), 47/7 (Split) & 47/8d (Part) in the Southern North Sea were offered under a single licence to a group in which Serica has a 37.5% interest. Centrica is the Operator for the group. These blocks are contiguous part blocks immediately adjacent to the York field, also operated by Centrica.

A number of gas prospects, including a possible extension to North York, have been identified on the blocks at both the Lemn (Permian) and Namurian (Carboniferous) levels. The work obligation comprises a 3D seismic acquisition survey and reprocessing of existing seismic data. The 3D seismic survey to fully evaluate the gas prospects adjacent to the York gas field, commenced in May 2013.

East Irish Sea: Block 110/2d

Serica held a 100% interest in this block which was relinquished in 2012.

East Irish Sea: Block 110/8b

In December 2011, Serica was awarded a 100% interest and the operatorship of Block 110/8b. Recent drilling by Centrica in the adjoining block to the north will have investigated prospectivity for gas in the area of the Darwen North prospect lying in the north of Block 110/8b but results of the drilling have not been released. The block also contains a small undeveloped oil discovery which is being re-evaluated.

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

Serica has a 65% operated interest in these blocks. A gas prospect lying in the north of Block 113/27c, the Doyle prospect, has been fully matured as the result of work done in 2011 and is ready to drill. Serica has agreed the terms of a farm-out agreement under which it will farm-out its interest in the block for transfer of operatorship and a carry on a well to test the Doyle prospect. Completion of the agreement requires agreement with the operator of a nearby offshore wind farm. This is now at an advanced stage with final agreement expected shortly.

The site survey for this prospect has recently been completed at no cost to Serica. As plans for the well are ready for early drilling, a fast track timeframe announcement for this is also expected.

Northern North Sea: Blocks 210/19a and 210/20a – South Otter Prospects

These blocks, in which Serica held a 100% interest, are a contiguous block and part block lying immediately south of the producing Otter oilfield.

Drilling of the South Otter blocks remained subject to a farm-out programme. As sufficient proposals to enable a well to be drilled in the blocks were not received, Serica made the decision to relinquish the blocks in January 2013 to comply with the terms of the licence.

Ireland

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

Following a mandatory 50% relinquishment that was confirmed in September 2012, the blocks under Licence FEL 1/06 now cover an area of approximately 305 square kilometres in the Slyne Basin off the west coast of Ireland. The blocks lie some 40 kilometres south of the Corrib discovery, which has reserves of approximately 800 billion cubic feet of gas. The Company holds a 50% interest in the blocks and operates the licence.

In 2009, Serica drilled the Bandon exploration well 27/4-1 and made a shallow Jurassic oil discovery. The early drilling of this well met the licence obligations for both the first and second exploration periods. Although the discovery was not commercial the well was important as it proved the presence of oil in the Jurassic. Deeper Jurassic oil prospects of potentially commercial size, where the oil would be of much higher quality, have subsequently been identified including two prospects, Boyne and Liffey which also overlay separate, deeper gas prospects in the Triassic Sherwood sandstone.

The Company, in partnership with RWE, has completed site surveys on the Boyne and Liffey prospects to follow up on the presence of oil discovered by Serica on the blocks in 2009. The partners are planning to drill a well in 2014 and will be commencing a farm-out campaign later in the year.

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

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

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

A large exploration prospect, Muckish, has been fully detailed from 3D seismic data in Blocks 5/22 and 5/23. The Muckish prospect is a large structure analogous to the nearby Dooish gas condensate discovery and provides material upside in a proven hydrocarbon basin. The evaluation of 3D seismic data

coverage and the nearby Dooish gas-condensate discovery, gives confidence in the potential of the prospect which covers an area of approximately 30 square kilometres with over 600 metres of vertical closure in a water depth of 1,450 metres.

Serica is reviewing the potential to bring forward drilling of the Muckish prospect. In view of the need to share costs, a farm-out programme in preparation for drilling commenced in 2012 and discussions with potentially interested partners are continuing.

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

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

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

Serica is undertaking 2D and 3D seismic reprocessing work and other geological studies to firm up these two additional prospects. Following the initial two year period of the licence award the Company has an option to convert the licence into a full Exploration Licence.

Namibia

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

In late December 2011, Serica was awarded an 85% interest in a Petroleum Agreement covering Blocks 2512A, 2513A, 2513B and 2612A (part) in the Luderitz Basin, offshore Namibia in partnership with The National Petroleum Corporation of Namibia (Pty) Limited ("NAMCOR") and Indigenous Energy (Pty) Limited. The blocks lie in the centre of the basin and cover a total area of approximately 17,400 square kilometres.

During 2012 the Company has completed all payments due to NAMCOR in respect of the initial licence award. These payments comprised an initial cash payment of US\$1 million, which was made in January 2012, and a share allotment to NAMCOR of six million new ordinary shares of Serica, which was announced on 2 November 2012. The issue of the shares to NAMCOR is intended to provide NAMCOR and the Government of the Republic of Namibia with an additional return in the event of success with the project. The allotment, which represents 3.28% of the

REVIEW OF OPERATIONS CONTINUED

enlarged share capital, was made once NAMCOR received the required consents from the Namibian authorities.

In March the Company announced that it had agreed to farm-out an interest in the licence to BP. Under the terms of the transaction with BP, which completed during the second quarter, Serica reduced its interest in the licence to 55% in return for a payment to recover past costs and the full cost of the extensive 3D seismic survey being met by BP.

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

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

In September the Company successfully completed the major offshore survey in the Luderitz Basin blocks with a final acquisition of 4,180 square kilometres of 3D seismic data fully to delineate prospects identified in the south east of the blocks. The survey, conducted by Serica on behalf of its partners in the Licence, BP, NAMCOR and IEPL, commenced in May and took four and a half months to complete. The survey was undertaken by Polarcus Seismic Limited using the 10-streamer seismic vessel Polarcus Nadia. The completion of this survey more than meets in full the obligations for seismic acquisition under the terms of the licence.

The completion of this extensive survey, only nine months after the award of the licence, is an important step in the exploration of this largely unexplored basin. The data is of exceptional quality and has been acquired in the south east of the licence area over a clearly defined prospect which is located in a good setting for potential reservoir development. The data includes a tie line to provide control with existing well 2513/08-1, in which good reservoir sands were encountered. It is now being processed fully to delineate the prospect and to identify additional prospects associated with locally present channel sands. Identification of hydrocarbon source in juxtaposition with these clearly defined and very large prospects will be an important part of this process.

At the end of November, Serica received the fast-track on-board processed data from the survey undertaken. Data quality and coverage of the survey area is excellent and preliminary work on the results supports the presence of the very large four-way dip closed structure known as Prospect B which was targeted by the survey.

Prospect B covers an area in excess of 700 square kilometres with vertical closure of up to 300m. In house interpretation indicates that the prospect has a gross resource potential (P50 unrisks) of 670 million barrels with multi-billion barrel upside potential.

The fast-track data also indicates the presence of significant channel sand features with associated strong seismic amplitudes. The preliminary review of the fast-track data is very encouraging but to fully evaluate these early results it will be necessary to complete the full scale processing and interpretation which is currently underway with BP and likely to take until later in 1H2013.

The recent announcement of the results of the Wingat well, drilled offshore in the north of Namibia by HRT is highly significant. The well, although sub-commercial, recovered light, high quality oil, but more importantly, has proved the presence of mature working oil source rocks within the Lower Cretaceous that until now were unproven in Namibia. Importantly, these source rocks are reported to be at the same geological level as those which are required to charge the prospects identified in Serica's Luderitz Basin blocks. Although the Wingat well is approximately 400 km due north of the Luderitz Basin blocks, and is located in a different geological basin, both basins are on-trend and similar geological characteristics can be expected to be shared between the two basins.

Following the interpretation of the fully processed 3D seismic data and analysis of all relevant information a drilling decision will be made later this year.

Morocco

Sidi Moussa and Fom Draa Petroleum Agreements

Serica holds licence interests in the Sidi Moussa and adjacent Fom Draa Petroleum Agreements offshore Morocco. The blocks cover a total area of approximately 12,700 square kilometres in the sparsely explored Tarfaya-Ifni Basin and extend from the Moroccan coastline into water depths reaching a maximum of 2,000 metres. Under the terms of the licence agreements the participants are required to carry the state oil company ONHYM for a 25% interest through the exploration and appraisal phase. The First Extension Period of both licences, which also entails the drilling of a commitment well in each block, commenced on 17 January 2013.

The Tarfaya-Ifni Basin is geologically analogous to the oil producing salt basins of West Africa and exhibits significant potential. Sidi Moussa and Fom Draa are covered by over 5,200 square kilometres of modern 3D seismic data and over 7,000 kilometres of 2D seismic data. Serica has completed the evaluation of this data which demonstrates the presence of a large number of salt diapir related prospects, stratigraphic traps and tilted fault block plays. During the second quarter 2012, Serica, in conjunction with its partners, conducted a farm-out exercise in respect of both blocks. This generated considerable industry interest and reached a successful conclusion with the announcements of farm-out deals for both blocks noted below.

Sidi Moussa

In August it was announced that Genel Energy plc ("Genel") will be joining Serica and its partners in the exploration of the set of permits which comprise the Sidi Moussa Offshore area. Under the terms of that

transaction, Genel has acquired a 60% equity interest in Sidi Moussa, pro rata from each of the Sidi Moussa Participants according to its equity interest. In return Genel has paid a contribution to past costs (US\$433,000 net to Serica) and will pay for the drilling of the commitment well required in the First Extension Period (including the full costs relating to the ONHYM carried interest), up to a cap of US\$50 million. As a result of the farm-out, Serica will hold an ongoing interest of 5% in the Sidi Moussa permits. Confirmation from the Moroccan authorities approving the farm-out to Genel was received in March 2013. Genel (the operator of the Sidi Moussa block) has stated that it is targeting over 850 mmbbl of gross resources. Extensive 2D and 3D seismic has been completed and reprocessed, and a number of leads and prospects identified with significant resource potential across multiple play types. The Noble Paul Romano deepwater, semi-submersible rig has been contracted by Genel to drill the first exploration well which is targeted for the first half of 2014.

Foum Draa

In August it was announced that Cairn Energy plc "Cairn" will be joining Serica and its partners in the exploration of the set of permits which comprise the Foum Draa Offshore area. Under the terms of that transaction, Cairn has acquired a 50% operated equity interest in Foum Draa, pro rata from each of the Foum Draa Participants according to its equity interest. In return Cairn has paid its equity interest share of past costs (US\$500,000 net to Serica) and the first US\$60 million towards the drilling of the commitment well required in the First Extension Period (including the costs relating to the ONHYM carried interest). As a result of the farm-out, Serica holds an ongoing interest of 8.3333% in the Foum Draa permits. Confirmation from the Moroccan authorities approving the farm-out to Cairn was received in January 2013. Cairn has stated that two key prospects on the block have been identified with a gross mean prospective resource of the first prospect estimated to be 142 mmbbls and a gross mean prospective resource for a potential follow-up prospect estimated at 126 mmbbls. The site survey for the first exploration well was completed in April 2013. A second location was also surveyed in order to reduce future costs in the case of a drilling success at the first well location and a decision to follow-up later with a second exploration well.

Cairn has contracted the deep-water, 5th Generation, dynamically positioned, semi-submersible drilling rig Transocean Cajun Express. The rig will be mobilised to begin operations for Cairn, offshore Morocco on the Foum Draa licence in H2 2013. The historic performance of the Cajun Express indicates it is a highly efficient rig with low operating downtime.

Indonesia

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

Serica's sole remaining interest in Indonesia subsequent to the sale of its exploration interests to Kris Energy in October 2011 is its 25% interest in the Glagah Kambuna Technical Assistance Contract ("TAC"). The TAC covers an area of approximately 380 square kilometres offshore North Sumatra and contains the producing Kambuna gas field. The Company continues to benefit from cash flows it is receiving from this field in 2013 to date although the asset is not core to the Company's forward strategy.

The Kambuna gas is used for power generation to supply electricity to the city of Medan in North Sumatra and for industrial uses. The gas sales prices per thousand standard cubic feet under the contracts with PLN and Pertiwi Nusantara Resources ("Pertiwi") in December 2012 were approximately US\$6.09 and US\$7.61 respectively, escalated at 3% per annum. Kambuna gas yields significant volumes of condensate (light oil) which is sold to the state oil company Pertamina at the official Attaka Indonesian Crude Price less 11 cents per barrel.

Gross Kambuna field production in 2012 was 5,538 million standard cubic feet of gas and 333,500 barrels of condensate, equivalent to gross average daily production for the year of 15.2 mmscfd and 914 bbl/day. Average prices realised during the year for gas and condensate sales respectively were US\$6.53 per mcf and US\$116.1 per barrel. The highest price achieved during 2012 is US\$129.9 per barrel, achieved in March 2012.

The Kambuna field is in natural decline and production rates continued to fall throughout 2012 in line with reservoir pressure depletion. During the fourth quarter the field produced at an average rate of 11.2 mmscfd with approximately 741 barrels per day of condensate. Average prices realised during the quarter for gas and condensate sales respectively were US\$6.72 per mcf and US\$109.0 per barrel.

The field is close to the end of its economic life and the partnership is in advanced discussions with Pertamina regarding field handover. It is currently expected that the handover arrangements will involve a field shut-in at the end of June 2013 followed by a securing of the three wells and wellhead structure and handover in the second half of the year.

In previous years Serica has commissioned an independent reserves audit by RPS Energy, the same consultants as used by the Operator, on the Kambuna field for its annual reserves filings. In view of the expected field shut-in and handover to Pertamina in Q3 2013, remaining economic hydrocarbon reserves as at 31 December 2012 are of an immaterial level and will equate to the levels of production in the few months in 2013 before handover. Accordingly no independent reserves audit has been performed.

The remaining volume of reserves to be produced is primarily dependent upon the termination arrangements, and the Company has based its financial planning and reporting for the Kambuna field on the following forecast entitlement levels, which are estimated to be, at 31 December 2012, 0.24 bcf of sales gas and 0.016 mm bbl of liquids, a total of 0.066 mmbbl.

Norway

Serica holds a significant economic interest in the Bream oil field in Norway as the result of the sale, in 2008, of its original 20% interest in the field for a deferred consideration payable upon commencement of production from the field. It has recently been confirmed by a field participant that project sanction and submission of development plans to the authorities for the Bream field development are expected in early 2014 with first oil targeted for 2017.

FINANCIAL REVIEW

Results of Operations

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

The financial results of the Indonesian business disposal group that was sold in October 2011 are disclosed as discontinued operations and separate from the results of the retained business segments. The financial results of the Kambuna field interest had been disclosed in the Q2 2011 and Q3 2011 reports to shareholders as part of discontinued operations. The directors considered that as at 31 December 2011, whilst still available for sale, this operation no longer met the IFRS 5 criteria to recognise it as an asset held for sale and therefore include it as 'discontinued'. The annual financial results of the Kambuna field for 2011 and 2012 are disclosed within continuing operations together with the results of the retained core business segments.

Continuing operations	2012 US\$000	2011 US\$000
Sales revenue	15,404	27,111
Cost of sales	(19,330)	(25,648)
GROSS (LOSS)/PROFIT	(3,926)	1,463
Expenses:		
Impairment of fixed assets and goodwill	(4,361)	(2,314)
Pre-licence costs	(331)	(1,507)
E&E asset and other write offs	(10,462)	(355)
Administrative expenses	(5,299)	(6,011)
Foreign exchange gain/(loss)	180	(46)
Share-based payments	(570)	(844)
Depreciation	(341)	(348)
Operating loss before net finance revenue and tax	(25,110)	(9,962)
Gain on disposal	1,023	–
Finance revenue	12	15
Finance costs	(633)	(1,394)
LOSS BEFORE TAXATION	(24,708)	(11,341)
Taxation charge for the year	–	(3,149)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	(24,708)	(14,490)
Discontinued operations		
Loss for the year from discontinued operations	–	(5,880)
LOSS FOR THE YEAR	(24,708)	(20,370)
Loss per ordinary share - EPS		
Basic and diluted EPS on loss for the year from continuing operations (US\$)	(0.14)	(0.08)
Basic and diluted EPS on loss for the year (US\$)	(0.14)	(0.12)

Continuing operations

Serica generated a gross loss of US\$3.9 million for the year ended 31 December 2012 (2011: profit of US\$1.5 million) from its retained 25% interest in the Kambuna field.

Sales revenues

Serica currently generates all its sales revenue from the Kambuna field in Indonesia. Revenue is recognised on an entitlement basis for the Company's net working field interest. Entitlement revenues are higher in those periods where the full capped amount of cost recovery entitlement is eligible to be claimed out of gross revenue. In the 2011 periods, the cycle of eligible cost recovery was such that the full capped amount of cost recovery could not be claimed by the contractors, therefore giving lower contractor entitlement revenues and an increased government share of gross revenue. Unclaimed cost recovery amounts are carried forward to future periods and during 2012 the maximum possible contractual cost recovery entitlement is being achieved.

The field commenced its anticipated natural decline during 2011 in line with reservoir pressure depletion. In addition, production rates in January and February 2012 were reduced during compression facility work, designed to enhance the production capacity of the field after the first quarter of 2012. In 2012, gross Kambuna field gas production averaged 15.2 mmscf (2011: 35 mmscf) per day together with average condensate production of 914 barrels per day (2011: 2,363 bpd). The 2012 gas production was sold at prices averaging US\$6.53 per Mscf (2011 US\$6.16 per Mscf) and generated US\$8.0 million (2011 US\$15.1 million) of revenue net to Serica. Condensate production is stored and sold when lifted at a price referenced to the Indonesia Attaka official monthly crude oil price. Liftings in the year earned US\$7.4 million (2011 US\$12.0 million) of revenue net to Serica at an average price of US\$116.1 per barrel (2011 US\$115.8 per barrel).

Cost of sales and depletion charges

Cost of sales for 2012 were driven by production from the Kambuna field and totalled US\$19.3 million (2011 US\$25.6 million). The charge comprised direct operating costs of US\$6.2 million (2011 US\$7.7 million), non cash depletion of US\$13.1 million (2011 US\$17.7 million) offset by an increase in condensate inventory of US\$0.02 million (2011 US\$0.2 million decrease).

Operating costs per boe increased significantly in all 2012 periods as reduced production levels were not offset by corresponding reductions in production costs. The Company revised its accounting estimate of entitlement reserves for depletion purposes from 'proved and probable' to 'proved', with effect from 1 July 2011. This reduction in entitlement reserve base generated further increases in the depletion charge per boe for the second half of 2011 onwards.

The Company generated a loss before tax from continuing operations of US\$24.7 million for 2012 compared to a loss before tax of US\$11.3 million for 2011.

The 2012 US\$4.4 million (2011 US\$2.3 million) pre-tax impairment related to the Kambuna field and was recorded against oil and gas property, plant and equipment.

Pre-licence costs included direct costs and allocated general administrative costs incurred on oil and gas activities prior to the award of licences, concessions or exploration rights. The expense of US\$0.3 million for 2012 was lower than the 2011 charge of US\$1.5 million due to less activity in the year. The pre-licence work performed throughout 2011 culminated in the following awards; Block 110/8b in the East Irish Sea, four blocks in the Southern North Sea, a further six blocks in the Rockall Basin in Ireland, and four large blocks and part blocks in the Luderitz Basin in Namibia.

Asset write-offs in 2012 of US\$10.5 million (2011 of US\$0.4 million) included US\$8.8 million attributed to the Spaniards block in the UK North Sea, US\$1.1 million of charge from the relinquished UK licences and US\$0.6 million of obsolete inventory. 2011 write offs included minor working capital amounts and costs from relinquished licences.

Administrative expenses of US\$5.3 million for 2012 decreased from US\$6.0 million for 2011. The Company has worked to reduce overhead during 2012 and expects these savings to give further benefit in 2013.

The impact of foreign exchange was not significant in 2012 or 2011.

FINANCIAL REVIEW CONTINUED

Share-based payment costs of US\$0.6 million reflected share options granted and compare with US\$0.8 million for 2011.

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

In March 2012 the Company announced that it had agreed to farm-out an interest in its Namibian licence to BP. Under the transaction, BP paid to Serica a sum of US\$5.0 million covering Serica's past costs and earned a 30% interest in the licence by meeting the full cost of an extensive 3D seismic survey. The accounting gain of US\$1.0 million on disposal recorded in 2012 relates to the recognition of recovery for those past costs incurred that had been expensed as pre-licence costs in previous periods. The reimbursement of those past costs capitalised as E&E assets on the award of the licence in December 2011 or capitalised as incurred in Q1 2012, are treated as a reduction from the book cost of the asset. Completion of the farm-out transaction occurred in June 2012 following the consent of the Ministry of Mines and Energy in Namibia.

Finance revenue for 2012, comprising interest income of US\$0.01 million, compares with US\$0.02 million for 2011. Bank deposit interest income has been negligible in both periods.

Finance costs typically consist of interest payable, arrangement costs spread over the term of the bank loan facility and other fees. The reduction in expense from US\$1.4 million in 2011 to US\$0.6 million arose following the full repayment of outstanding liabilities in February 2011. No finance costs are currently being incurred following the expiry of the loan facility in March 2013.

Taxation charges typically arise from Kambuna field operations, although there is no current taxation or deferred taxation charge in 2012. The 2011 taxation charge of US\$3.1 million arose from Indonesian operations, and comprised a current tax charge of US\$4.4 million and a deferred tax credit of US\$1.3 million. Current tax is typically charged on the profit oil or gas element of sales revenue rather than the cost recovery component.

The net loss per share from continuing operations of US\$0.14 for 2012 compares to a net loss per share of US\$0.08 for 2011.

Discontinued operations

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

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

Discontinued operations	2012 US\$000	2011 US\$000
Sales revenue	–	–
Cost of sales	–	–
GROSS PROFIT	–	–
Expenses:		
Pre-licence costs	–	(292)
E&E asset and other write-offs	–	(788)
Administrative expenses	–	(621)
Foreign exchange loss	–	(3)
Share-based payments	–	(203)
Depreciation	–	–
Operating loss before net finance revenue and tax	–	(1,907)

Other costs	–	(363)
Loss recognised on remeasurement to fair value	–	(3,720)
Profit on disposal	–	110
Finance revenue	–	–
LOSS BEFORE TAXATION	–	(5,880)
Taxation charge for the year	–	–
LOSS FOR THE YEAR	–	(5,880)

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

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

Summary of Quarterly Results

Quarter ended:	31 Mar US\$000	30 Jun US\$000	30 Sep US\$000	31 Dec US\$000
2012				
Sales revenue	4,038	4,417	3,493	3,456
Loss for the quarter	(1,391)	(2,162)	(2,907)	(18,248)
Basic earnings per share US\$	(0.01)	(0.01)	(0.02)	(0.10)
Diluted earnings per share US\$	(0.01)	(0.01)	(0.02)	(0.10)
2011				
Sales revenue	8,577	6,613	6,579	5,342
Loss for the quarter	(2,465)	(11,342)	(2,462)	(4,101)
Basic earnings per share US\$	(0.01)	(0.06)	(0.01)	(0.02)
Diluted earnings per share US\$	(0.01)	(0.06)	(0.01)	(0.02)

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

The fourth quarter 2011 loss includes an impairment charge of US\$2.3 million against the Kambuna production asset.

The fourth quarter 2012 loss includes Exploration and Evaluation and other asset write-offs of US\$10.5 million and an impairment charge of US\$4.4 million against the Kambuna producing asset.

Working Capital, Liquidity and Capital Resources

Current Assets and Liabilities

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

	31 December 2012 US\$000	31 December 2011 US\$000
Current assets:		
Inventories	481	1,572
Trade and other receivables	8,941	9,338
Financial assets	412	647
Cash and cash equivalents	22,345	19,946
TOTAL CURRENT ASSETS	32,179	31,503

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Less Current liabilities:

Trade and other payables	(11,677)	(10,267)
Income tax payable	–	(302)
Provisions	(1,601)	–
TOTAL CURRENT LIABILITIES	(13,278)	(10,569)
NET CURRENT ASSETS	18,901	20,934

At 31 December 2012, the Company had net current assets of US\$18.9 million which comprised current assets of US\$32.2 million less current liabilities of US\$13.3 million, giving an overall decrease in working capital of US\$2.0 million in the year.

Inventories decreased from US\$1.6 million to US\$0.5 million over the year, largely due to the write-off of certain obsolete operational equipment.

Trade and other receivables at 31 December 2012 totalled US\$8.9 million, a decrease of US\$0.4 million from the 2011 year-end balance of US\$9.3 million. The balance as at 31 December 2012 includes; US\$2.1 million of trade debtors from gas and condensate sales from the Kambuna field, US\$0.9 million of Morocco farm-out back cost contributions, advance payments on ongoing operations, short-term Indonesian VAT receivables, recoverable amounts from partners in joint venture operations in the UK, Namibia, Morocco and Indonesia, sundry UK and Kambuna asset working capital balances, and prepayments.

Financial assets at 31 December 2012 represented US\$0.4 million of restricted cash deposits.

Cash and cash equivalents increased from US\$20.0 million to US\$22.3 million in the year. During 2012 the Company generated US\$15.4 million of revenues from the Kambuna field. Cash outflows were incurred on Kambuna field operating costs in Indonesia and on the Spaniards appraisal well drilling in the UK. Other costs included seismic work across the portfolio, Columbus Field Development Plan expense together with new venture costs, ongoing administrative costs and corporate activity.

Trade and other payables of US\$11.7 million at 31 December 2012 chiefly include trade creditors and accruals of US\$6.9 million from the Spaniards East well drilling in the UK. Other items include sundry creditors and accruals from the Kambuna field operations and ongoing exploration programmes in Namibia and the UK, payables for administrative expenses and other corporate costs.

The current tax payable in prior periods arises in respect of the Kambuna field in Indonesia. First cash tax payments from Kambuna field revenues were made in April 2011 although the field is not currently in a cash tax paying position.

Provisions of US\$1.6 million at 31 December 2012 are in respect of Kambuna field decommissioning payments in Indonesia. These were classified as long-term liabilities in 2011.

Long-Term Assets and Liabilities

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

	31 December 2012 US\$000	<i>31 December 2011 US\$000</i>
Exploration and evaluation assets	66,880	69,083
Property, plant and equipment	1,145	18,719
Financial assets	–	394
Long-term other receivables	1,706	3,613
Provisions	–	(2,029)
Deferred income tax liabilities	–	–

During 2012, total investments in petroleum and natural gas properties represented by exploration and evaluation assets ("E&E assets") decreased from US\$69.1 million to US\$66.9 million.

The net US\$2.2 million decrease consists of US\$12.8 million of additions, less US\$9.8 million of exploration asset write-offs and the US\$5.2 million of back cost contributions on farm-out transactions in Namibia, Morocco and the UK.

The US\$12.8 million of additions on continuing operations were incurred on the following assets:

In the UK & Ireland, US\$8.5 million was incurred during 2012 in preparation for and drilling the Spaniards East appraisal well, US\$0.9 million was incurred on the Columbus FDP (including FEED work on the BLP), US\$1.2 million on a site survey and other exploration work in Ireland and US\$0.9 million on other UK exploration work and G&A.

In Africa, US\$0.7 million was capitalised in respect of the Luderitz basin licence interests in Namibia and US\$0.6 million was incurred on ongoing work on the Morocco interests.

Property, plant and equipment chiefly comprise the net book amount of the capital expenditure on the Company's interest in the Kambuna development. During 2012, the Company's investment decreased from US\$18.3 million to US\$1.1 million. This US\$17.2 million decrease comprised depletion charges of US\$13.1 million arising from the production of gas and condensate, the Q4 2012 impairment of US\$4.4 million, a US\$0.5 million book cost adjustment from decommissioning estimate revisions, partially offset by US\$0.7 million of capex additions in the year. The property, plant and equipment also included balances of US\$0.1 million (2011: US\$0.5 million) for office fixtures and fittings and computer equipment.

All financial assets at 31 December 2012 were classified as short-term.

Long-term other receivables of US\$1.7 million are represented by value added tax ("VAT") on Indonesian capital spend which is expected to be recovered from the Indonesian authorities.

Provisions of US\$2.0 million at 31 December 2011 are in respect of Kambuna field decommissioning payments in Indonesia. These are classified as current liabilities in 2012.

There were no recorded deferred income tax liabilities as at 31 December 2011 or 2012.

Shareholders' Equity

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

	31 December 2012	<i>31 December 2011</i>
	US\$000	<i>US\$000</i>
Total share capital	209,758	<i>207,702</i>
Other reserves	20,045	<i>19,475</i>
Accumulated deficit	(141,171)	<i>(116,463)</i>

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

Other reserves mainly include amounts in respect of cumulative share-based payment charges. The increase from US\$19.5 million to US\$20.0 million reflects proportional charges in 2012 for options issued in 2012 and prior years.

Asset values and Impairment

At 31 December 2012 Serica's market capitalisation stood at US\$74.2 million (£45.9 million), based upon a share price of £0.2512, which was exceeded by the net asset value at that date of US\$88.6 million. By 24 May 2013 the Company's market capitalisation had decreased to US\$62.1 million. Management conducted a thorough review of the carrying value of its assets and determined that no further write-downs were required beyond those already disclosed above.

Capital Resources

Available financing resources

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

Typically exploration activities are equity financed whilst field development costs are principally debt financed. In the current business

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environment, access to new funding remains uncertain. Consequently, the Company has given priority to the careful management of existing financial resources.

At 31 December 2012, the Company held cash and cash equivalents of US\$22.3 million and US\$0.4 million of short and long-term restricted cash in continuing operations. Significant liabilities of US\$6.9 million arising from the Q4 2012 East Spaniards well in the UK North Sea have been settled since the year end, and as at 24 May 2013, cash and restricted cash balances held totaled US\$16.0 million. Despite the forthcoming cessation of Kambuna field revenues in Q3 2013, Serica's current resources are sufficient to meet its current committed programme for 2013.

However, the Board recognised that it will be more than two years before we can expect first revenues from the Columbus field and that we will need to secure additional funding ready for our exploration programme from 1H 2014 and to support further business growth.

The management is considering a range of financing options to achieve this. The Company will continue to carefully manage its financial resources and the control that the Company can exert over the timing and cost of its exploration programmes both through operatorship and through farm-outs are also key factors in its ability to manage its commitments.

Debt facility

Throughout 2011 and 2012, the Company has had access to a three-year US\$50 million debt facility, which was arranged in November 2009 with J.P.Morgan plc, Bank of Scotland plc and Natixis as Mandated Lead Arrangers. This facility was principally to refinance the Company's outstanding borrowings on the Kambuna field. It was also originally put in place to finance the appraisal and development of the Columbus field and for general corporate purposes.

Although all outstanding amounts under the Company's debt facility were fully repaid in February 2011, the facility was rolled forward until February 2013 whilst the directors reviewed the funding requirements and options available for the Columbus field development. Following the good progress that had initially been made with BG on the development of the Columbus field, the Company was actively engaged in arranging financing to enable this to be achieved. In March 2013, in light of the current expected timing requirements for the Company's share of Columbus project development costs, the Company decided to allow the facility to expire. This decision will save ongoing unutilised fee costs and was made in light of other financing options that are under review. Plans are advanced to finance the Company's share of Columbus development costs when the final decision to proceed is made.

Summary of contractual obligations

The following table summarises the Company's contractual obligations as at 31 December 2012;

Contractual Obligations	Total US\$000	<1 year US\$000	1-3 years US\$000	>3 years US\$000
Operating leases	146	146	–	–
Other short term obligations	1,608	1,608	–	–
Total contractual obligations	1,754	1,754	–	–

All bank debt was repaid in February 2011.

Other short term obligations relate current estimates of decommissioning payments in Indonesia.

Lease commitments

At 31 December 2012, Serica had no capital lease obligations. At that date, the Company had commitments to future minimum payments under operating leases in respect of rental office premises and office equipment for each of the following period/years as follows:

	US\$000
31 December 2013	146
31 December 2014	–

In February 2013, the Company entered into a new five year office operating lease with a minimum commitment period of one year, expiring in April 2014.

Capital expenditure commitments, obligations and plans

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. The Company is not obliged to meet other joint venture partner shares of these programmes.

In the UK North Sea, the partners in Licence P1906 (York Area) have obligations to acquire seismic data in the first licence period. The acquisition of this data commenced in May 2013 and Serica's estimated 40% paying share is US\$1.8 million.

In Morocco, the partners on the Fom Draa licence expect to drill the first exploration commitment well in Q4 2013. The Company is carried for its share of expenditure up to a gross cap of US\$60 million. Serica has currently budgeted to pay some US\$3.5 million, being its paying share of costs over and above the agreed cap to the farm-in carry.

Under the terms of the Company's Namibian licence, the value of work performed in 2012 by the JV partners on the 3D Seismic acquisition programme has exceeded the minimum obligation expenditure on exploration work of US\$15.0 million covering the entire initial four year period of the licence, ending in December 2015.

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

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 2012 financial statements. International Financial Reporting Standards have been adopted. The costs of exploring for and developing petroleum and natural gas reserves are capitalised. The capitalisation and any write off of E&E assets, or depletion of producing assets, involve certain judgments with regard to whether the asset will ultimately prove to be recoverable. Key sources of estimation uncertainty that impact the Company relate to assessment of commercial reserves and the impairment of the Company's assets. Oil and gas properties are subject to periodic review for impairment, whilst goodwill is reviewed at least annually. Impairment considerations involve certain judgements as to whether E&E assets will lead to commercial discoveries and whether future field revenues will be sufficient to cover capitalised costs. Recoverable amounts can be determined based upon risked potential, or where relevant, discovered oil and gas reserves. In each case, recoverable amount calculations are based upon estimations and management assumptions about future outcomes, product prices and performance. Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment charge is required.

Financial Instruments

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

Serica has exposure to interest rate fluctuations on its cash deposits and its bank loans; given the level of expenditure plans over 2013/14 this is managed in the short-term through selecting treasury deposit periods of one to three months. Treasury counterparty credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.

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

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

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

FINANCIAL REVIEW CONTINUED

Share Options

As at 31 December 2012, the following director and employee share options were outstanding:

Expiry Date	Amount	Exercise cost Cdn\$
March 2014	1,000,000	1,800,000
December 2014	200,000	200,000
January 2015	600,000	600,000
June 2015	100,000	180,000

		Exercise cost £
October 2013	750,000	300,000
January 2014	228,000	72,960
November 2015	280,000	271,600
January 2016	135,000	139,725
June 2016	270,000	259,200
January 2017	243,000	247,860
May 2017	210,000	218,400
March 2018	594,000	445,500
March 2018	350,000	287,000
January 2020	2,203,500	1,498,380
April 2021	450,000	141,188
January 2022	2,144,960	458,485
October 2022	1,200,000	348,000

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

In April 2012, 110,000 share options were exercised by employees other than directors at a price of £0.32, and 1,902,500 share options expired.

In August 2012, 1,200,000 share options expired.

In September 2012, 1,257,000 share options expired.

In October 2012, 1,200,000 share options were granted to three executive directors with an exercise cost of £0.29 and an expiry date of 7 October 2022.

In January 2013, 400,000 share options were granted to employees other than directors with an exercise cost of £0.2725 and an expiry date of 22 January 2023.

Outstanding Share Capital

As at 29 May 2013, the Company had 182,770,311 ordinary shares issued and outstanding.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's DC&P and ICFR as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as at December 31, 2012, the Company's DC&P and ICFR are effective. There were no changes in the Company's ICFR during the period beginning on October 1, 2012 and ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Business Risk and Uncertainties

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

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

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

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

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

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

FINANCIAL REVIEW CONTINUED

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

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

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

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

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. Its activities are located in the UK, Ireland, Namibia and Morocco, together with a currently retained interest in the Kambuna Field in Indonesia.

The Company's financial statements have been prepared with the assumption that the Company will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. During the year ended 31 December 2012 the Company generated a loss of US\$24.7 million from continuing operations. At 31 December 2012 the Company had US\$22.3 million of net cash. The Company intends to utilise its existing cash balances and future operating cash inflows to fund the immediate needs of its investment programme and ongoing exploration operations. Columbus development costs will largely be met by separate financing options.

In making their going concern assessment, the Directors have determined that the Company has sufficient funds to meet its exploration and other commitments for 2013 but will need to secure additional funding for the Company's exploration programme from 1H2014.

The management is considering a range of strategic and financing options to achieve this. The Directors believe in the underlying strength and value in the Company's portfolio of assets which has been demonstrated by expressions of interest received from third parties and are of the opinion that the Group will be able to access funds to meet its ongoing working capital and committed capital expenditure requirements over the next 12 months. The strategic and capital raising alternatives open to the Company include the realisation of asset value through farm-out or sale, forward sale of production, corporate transactions as well as the issue of equity or other financial instruments. The Company has no debt or major commitments or other liabilities which are not covered by existing farm-out agreements with strongly financed companies. Accordingly, the financial statements have been prepared on a going concern basis.

Further details of the Company's financial resources and debt facility are given above in the Financial Review in this MD&A.

Additional Information

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

Approved on Behalf of the Board

Antony Craven Walker
Chief Executive Officer

Christopher Hearne
Finance Director

29 May 2013

Forward Looking Statements

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

CONSOLIDATED FINANCIAL STATEMENTS OF SERICA ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

Directors' Report

The Directors of the Company present their report and the Group financial statements of Serica Energy plc ("Serica" or the "Company") for the year ended 31 December 2012.

Principal Activities

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

Business Review and Future Developments

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

Results and Dividends

The loss for the year was US\$24,708,000 (2011: loss US\$20,370,000).

The Directors do not recommend the payment of a dividend (2011: US\$nil).

Financial Instruments

The Group's financial risk management objectives and policies are discussed in the Financial Instruments section of the Management's Discussion and Analysis and in note 24.

Events Since Balance Sheet Date

Events since the balance sheet date are included in note 31.

Directors and their Interests

The following Directors have held office in the Company since 1 January 2012:

Antony Craven Walker
 Christopher Hearne
 Peter Sadler
 Neil Pike
 Mitchell Flegg (appointed 5 September 2012)
 Ian Vann
 Steven Theede
 Jonathan Cartwright (resigned 28 June 2012)
 Jeffrey Harris (appointed 20 December 2012)

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Class of share	Interest at end of year	Interest at start of year ¹
Antony Craven Walker ⁽²⁾	Ordinary	5,970,236	5,970,236
Christopher Hearne	Ordinary	794,632	765,556
Peter Sadler	Ordinary	186,172	157,096
Mitchell Flegg	Ordinary	102,816	97,629
Neil Pike ⁽³⁾	Ordinary	405,000	405,000
Ian Vann	Ordinary	133,935	133,935
Steven Theede	Ordinary	749,485	749,485
Jeffrey Harris ⁽⁴⁾	Ordinary	25,501,736	—

1. Or date of appointment if later.

2. 3,513,349 ordinary shares are held by Antony Craven Walker, 1,548,003 ordinary shares are held by Christine Elizabeth Walker and 908,884 by Rathbones (pension fund).

3. 155,000 ordinary shares are held by Romayne Pike and 150,000 ordinary shares by Luska Limited.

4. 25,501,736 ordinary shares are held by Global Reserve Group LLC who are represented on the Board by Jeffrey Harris.

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

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

The Directors are interested in share options held by them pursuant to the terms of the Serica Energy Corporation option plan (a summary of which is set out in note 27) as follows:

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

The options above have fully vested.

The following Directors are also interested in share options held by them pursuant to the terms of the Serica Energy plc Share Option Plan 2005 ("Serica 2005 Option Plan") (a summary of which is set out in note 27) as follows:

	1/1/12	Granted	Expired	31/12/12	Exercise Price £	Date of grant	Expiry date
C Hearne	103,000	–	–	103,000	0.97	23/11/05	22/11/15
	7,000	–	–	7,000	0.97	23/11/05	22/11/15
	350,000	–	–	350,000	0.82	31/03/08	30/03/18
	675,000	–	–	675,000	0.68	11/01/10	10/01/20
	200,000	–	–	200,000	0.313	05/04/11	04/04/21
	–	402,190	–	402,190	0.214	11/01/12	10/01/22
	–	400,000	–	400,000	0.29	08/10/12	07/10/22
P Sadler	750,000	–	–	750,000	0.40	28/10/08	27/10/13
	750,000	–	–	750,000	0.68	11/01/10	10/01/20
	–	457,500	–	457,500	0.214	11/01/12	10/01/22
	–	400,000	–	400,000	0.29	08/10/12	07/10/22
M Flegg	270,000	–	–	270,000	0.96	12/06/06	11/06/16
	150,000	–	–	150,000	1.02	11/01/07	10/01/17
	210,000	–	–	210,000	0.75	14/03/08	13/03/18
	66,000	–	–	66,000	0.32	05/01/09	04/01/14
	225,000	–	–	225,000	0.68	11/01/10	10/01/20
	200,000	–	–	200,000	0.313	05/04/11	04/04/21
	–	326,750	–	326,750	0.214	11/01/12	10/01/22
	–	400,000	–	400,000	0.29	08/10/12	07/10/22
A Craven Walker	300,000	–	(300,000)	–	0.985	10/08/07	10/08/12
N Pike	300,000	–	(300,000)	–	0.985	10/08/07	10/08/12
I Vann	300,000	–	(300,000)	–	0.985	10/08/07	10/08/12
S Theede	300,000	–	(300,000)	–	0.985	10/08/07	10/08/12

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

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

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

The peer group of comparator companies is subject to change by the Remuneration Committee should the Remuneration Committee feel that the group no longer comprises a meaningful peer group comparator as the result, for example, of a significant change in the Company or one or more of the peer group companies ceasing to be quoted on a recognised exchange. Regal Petroleum plc (Regal) was replaced by Dominion Petroleum plc (Dominion) following Regal's acquisition by Energie Management Limited and Dominion was replaced by Chariot Oil and Gas Limited (Chariot) following Dominion's acquisition by Ophir Energy plc.

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

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

In respect of the options granted in January 2012 and October 2012, the vesting of the options is subject to Serica share price Performance Conditions measured against a selected peer group consisting of Antrim Energy Inc., Aurelian Oil & Gas plc, Bowleven plc, Chariot Oil and Gas Limited, Falkland Oil & Gas Limited, Faroe Petroleum plc, Gulfsands Petroleum plc, Ithaca Energy Inc, Northern Petroleum plc, Petroceltic International plc, Providence Resources plc and Valiant Petroleum plc. The Performance Conditions are as follows:

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

The peer group of comparator companies is subject to change by the Remuneration Committee should the Remuneration Committee feel that the group no longer comprises a meaningful peer group comparator as the result, for example, of a significant change in the Company or one or more of the peer group companies ceasing to be quoted on a recognised exchange.

Supplier Payment Policy and Practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2012, the Company had an average of 24 days purchases owed to trade creditors (2011 - 25 days).

Going Concern

For further details of the Company's consideration on going concern see note 2 to the financial statements.

Auditor

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

Disclosure of information to auditors

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

On behalf of the Board

Christopher Hearne

Director

29 May 2013

CORPORATE GOVERNANCE STATEMENT

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

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

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

The Company is a 'designated foreign issuer' as defined under National Instrument 71-1-2-Continuous Disclosure and Other Exemptions Relating to Foreign Issuers. The Company is subject to the foreign regulatory requirements of the AIM Market of the London Stock Exchange.

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

The Board and its Committees

The Board of the Company currently consists of three Executive Directors, four non-Executive Directors and the Chairman of the Board who has been acting as Interim CEO since the retirement of Paul Ellis in April 2011. At the time of Mr Ellis's retirement, the Board agreed that it was necessary for there to be some continuity in the management of the Company and it was agreed that the Chairman should be appointed as Interim CEO until such time as a suitably qualified successor to fill the CEO position could be identified. The position has been kept under review by the Corporate Governance and Nomination Committee which reports to the Board. This Committee considers that it remains in the best interests of the Company for the Chairman to continue to fill this role during this period of strategic refocus. This view is supported by the Board. Neil Pike continues to hold the position of Senior Independent Director which ensure that the appropriate level of balance is maintained on the Board. During the year Mitchell Flegg was appointed to the Board as Chief Operating Officer and Jeffrey Harris was appointed as a non-Executive director. Jonathan Cartwright resigned as a non-Executive director in June 2012. Peter Sadler will be stepping down as Business Development Director at the conclusion of the 2013 Annual General Meeting but will continue to provide consultancy services to the Group. It is considered that the Board is of sufficient size and that the balance of skills and experience is appropriate for a company of Serica's size, stage of development and business although it is recognised that a CEO will need to be appointed in due course. All the non-Executive directors and the Chairman are independent in character and judgement and have the range of experience and calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group.

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

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

Other than Jeffrey Harris who represents Global Reserve Group, the Company's largest shareholder, all of the non-Executive directors meet the requirements of independence prescribed in the UK Code. The Board believes that there has been an adequate balance between the non-Executive and Executive Directors, both in number and in experience and expertise, to ensure that the Board operates independently of executive management. The need to appoint a Chief Executive Officer is recognised and this is discussed further in the Chairman's Report. There is no formal Board performance appraisal system in place but the Corporate Governance and Nomination Committee considers this as part of its remit.

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

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

Corporate Governance and Nomination Committee

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

The committee met three times during 2012 and proposes to meet at least three times during the next financial year.

The Corporate Governance and Nomination Committee is comprised of the Chairman and two non-Executive directors all of whom are independent (other than as described in "The Board and its Committees" above). The committee is chaired by Neil Pike and its other members are Antony Craven Walker. Jonathan Cartwright served on the committee until his resignation from the Board on 28 June 2012.

Audit Committee

The Audit Committee meets regularly and consists of three members, all of whom are non-Executive Directors and two of whom are independent including the chairman of the committee. The committee's purpose is to assist the Board's oversight of the integrity of the financial statements and other financial reporting, the independence and performance of the auditors, the regulation and risk profile of the Group and the review and approval of any related party transactions. The Audit Committee may hold private sessions with management and the external auditor.

The Audit Committee met seven times in 2012 and proposes to meet at least three times during the next financial year. The committee is chaired by Neil Pike and its other members are Steven Theede and Jeffrey Harris. Jonathan Cartwright served on the committee until his resignation from the Board on 28 June 2012.

The responsibilities and operation of the Audit Committee are more particularly set out in the Company's Audit Committee Charter, a copy of which is included as Schedule A to the last annual information form which was filed for the Company in respect of the financial year ended December 31, 2011, a copy of which is available on SEDAR at www.sedar.com.

Reserves Committee

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

Remuneration and Compensation Committee

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

The committee met three times in 2012 and proposes to meet at least three times during the next financial year. In addition, written resolutions of the committee are passed from time to time particularly in relation to routine matters such as the allotment of shares pursuant to share option exercises as well as to record formally decisions of the committee reached outside the scheduled meetings.

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

CORPORATE GOVERNANCE STATEMENT CONTINUED

Health, Safety and Environmental Committee

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

The committee met four times in 2012 and proposes to meet at least four times during the next financial year. The committee is chaired by Ian Vann and its other members are Mitch Flegg and Antony Craven Walker.

Directors' attendance at meetings

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

The directors' attendance at scheduled Board meetings and Board committees during 2012 is detailed in the table below:

Director	Board	Audit	Remuneration and Compensation	Corporate Governance and Nomination	HSE	Reserves
A Craven Walker (Chairman)	16*	–	1*	3	–	–
CJ Hearne (CFO)	15	–	–	–	–	–
P Sadler (Business Development Director)	16	–	–	–	4*	1
M Flegg (COO) (appointed 5 September 2012)	5	–	–	–	4	–
J Cartwright (resigned 28 June 2012)	6	4	–	2	–	–
N Pike	15	7*	3	3*	–	–
S Theede	14	7	3*	–	–	1*
I Vann	13	–	–	–	4*	1
J Harris (appointed 20 December 2012)	1	–	–	–	–	–
Total meetings	16	7	3	3	4	1

Notes:

1. The Chairman and non-executive directors attended a number of meetings of committees of which they were not members during the course of the year at the invitation of the committee chairman.
2. Mr Theede was appointed as chairman of the Remuneration and Compensation Committee in place of Mr Craven Walker on 28 June 2012.
3. Mr Vann was appointed as chairman of the HSE Committee in place of Mr Sadler on 28 June 2012.

* Chairman

Janette Davies

Company Secretary
29 May 2013

DIRECTORS' BIOGRAPHIES

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

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

Peter Sadler Business Development Director Peter Sadler has a career spanning over 34 years in the international exploration and production business with both major and independent oil companies. He was formerly Chief Executive of Indago Petroleum plc, a Middle East based exploration and production company with projects that included the development of an offshore gas condensate field. He was Regional Manager Middle East for Novus Petroleum in Dubai and held senior positions in independent oil companies in Australia and the UK. He was first appointed to the Board as Chief Operating Officer of Serica in 2008, and was subsequently appointed as Business Development Director in April 2011.

Mitchell Flegg Chief Operating Officer Mitch Flegg has over 31 years of industry experience starting with Schlumberger and then with Enterprise Oil, (initially as a Petrophysicist) where he became responsible for drilling related operations for wells drilled in UK, Australia, Cambodia, Vietnam, Ireland, Romania and Bulgaria. After the takeover by Shell he worked on the implementation of new technology in well engineering before moving into asset management. Mitch joined Serica in 2006 and has been responsible for all drilling and development operations. He was promoted to the position of Chief Operating Officer in March 2011 and appointed to the Board of Serica in September 2012.

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

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

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

Jeffrey Harris Non-Executive Director Jeffrey Harris founded Global Reserve Group LLC in 2012 following a twenty-eight year career with Warburg Pincus, during which period he invested in and advised companies in the industrial, consumer, technology and energy sectors. Jeffrey has served on the board of directors of over thirty companies, including twelve publicly-traded entities. He is past chairman of the National Venture Capital Association and an adjunct professor at the Columbia University Graduate School of Business where he teaches courses on venture capital, and entrepreneurship and innovation. He was appointed to the Board of Serica in December 2012.

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SERICA ENERGY PLC

We have audited the financial statements of Serica Energy plc for the year ended 31 December 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Cash Flow and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The conditions explained on note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Justine Belton, (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

29 May 2013

GROUP INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

Notes	2012 US\$000	2011 US\$000
Continuing operations		
4	SALES REVENUE	27,111
5	Cost of sales	(25,648)
	GROSS PROFIT	1,463
16	Impairment of fixed assets	(2,314)
	Pre-licence costs	(1,507)
	E&E and other asset write-offs	(355)
	Administrative expenses	(6,011)
	Foreign exchange gain/(loss)	(46)
27	Share-based payments	(844)
8	Depreciation	(348)
	OPERATING LOSS BEFORE NET FINANCE REVENUE AND TAX	(9,962)
15	Gain on disposal	–
11	Finance revenue	15
12	Finance costs	(1,394)
	LOSS BEFORE TAXATION	(11,341)
13 a)	Taxation charge for the year	(3,149)
	Loss for the year from continuing operations	(14,490)
	Discontinued operations	
7	Loss for the year from discontinued operations	(5,880)
	LOSS FOR THE YEAR	(20,370)
	Loss per ordinary share - EPS	
14	Basic and diluted EPS on continuing operations (US\$)	(0.08)
14	Basic and diluted EPS on loss for the year (US\$)	(0.12)

Group Statement of Comprehensive Income

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

BALANCE SHEET AS AT 31 DECEMBER

Notes

	Group 2012 US\$000	2011 US\$000	Company 2012 US\$000	2011 US\$000	
Non-current assets					
15	Exploration & evaluation assets	66,880	69,083	–	–
16	Property, plant and equipment	1,145	18,719	–	–
17	Investments in subsidiaries	–	–	13,830	11,830
18	Financial assets	–	394	–	394
18	Other receivables	1,706	3,613	–	–
		69,731	91,809	13,830	12,224
Current assets					
19	Inventories	481	1,572	–	–
20	Trade and other receivables	8,941	9,338	111,768	115,312
20	Financial assets	412	647	412	647
21	Cash and cash equivalents	22,345	19,946	21,424	19,142
		32,179	31,503	133,604	135,101
	TOTAL ASSETS	101,910	123,312	147,434	147,325
Current liabilities					
22	Trade and other payables	(11,677)	(10,267)	(1,080)	(633)
	Income taxation payable	–	(302)	–	–
23	Provisions	(1,601)	–	–	–
Non-current liabilities					
23	Provisions	–	(2,029)	–	–
	TOTAL LIABILITIES	(13,278)	(12,598)	(1,080)	(633)
	NET ASSETS	88,632	110,714	146,354	146,692
25	Share capital	209,758	207,702	174,486	172,430
17	Merger reserve	–	–	4,322	4,322
	Other reserve	20,045	19,475	20,045	19,475
	Accumulated deficit	(141,171)	(116,463)	(52,499)	(49,535)
	TOTAL EQUITY	88,632	110,714	146,354	146,692

Approved by the Board on 29 May 2013

Antony Craven Walker
Chief Executive Officer

Christopher Hearne
Finance Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER

Group	Share capital US\$000	Other reserve US\$000	Accum'd deficit US\$000	Total US\$000	
At 1 January 2011	207,657	18,428	(96,093)	129,992	
Loss for the year	-	-	(20,370)	(20,370)	
Total comprehensive income	-	-	(20,370)	(20,370)	
Share-based payments	-	1,047	-	1,047	
Proceeds on exercise of options	45	-	-	45	
AT 31 DECEMBER 2011	207,702	19,475	(116,463)	110,714	
Loss for the year	-	-	(24,708)	(24,708)	
Total comprehensive income	-	-	(24,708)	(24,708)	
Share-based payments	-	570	-	570	
Proceeds on exercise of options	56	-	-	56	
Issue of shares	2,000	-	-	2,000	
AT 31 DECEMBER 2012	209,758	20,045	(141,171)	88,632	
Company	Share capital US\$000	Merger reserve US\$000	Other reserve US\$000	Accum'd deficit US\$000	Total US\$000
At 1 January 2011	172,385	4,322	18,428	(44,486)	150,649
Loss for the year	-	-	-	(5,049)	(5,049)
Total comprehensive income	-	-	-	(5,049)	(5,049)
Proceeds on exercise of options	45	-	-	-	45
Share-based payments	-	-	1,047	-	1,047
AT 31 DECEMBER 2011	172,430	4,322	19,475	(49,535)	146,692
Loss for the year	-	-	-	(2,964)	(2,964)
Total comprehensive income	-	-	-	(2,964)	(2,964)
Proceeds on exercise of options	56	-	-	-	56
Share-based payments	-	-	570	-	570
Issue of shares	2,000	-	-	-	2,000
AT 31 DECEMBER 2012	174,486	4,322	20,045	(52,499)	146,354

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Group 2012 US\$000	2011 US\$000	Company 2012 US\$000	2011 US\$000
Operating activities:				
Loss for the year	(24,708)	(20,370)	(2,964)	(5,049)
Adjustments to reconcile loss for the year to net cash flow from operating activities:				
Taxation	–	3,149	–	–
Net finance costs	621	1,379	605	1,339
Loss on re-measurement to fair value	–	3,720	–	–
Profit on disposal	(1,023)	(110)	–	–
Depreciation	341	348	–	–
Depletion and amortisation	13,116	17,716	–	–
Asset write-offs	10,462	355	–	–
Impairment	4,361	2,314	–	–
Share-based payments	570	1,047	570	1,047
Decrease in trade and other receivables	4,149	5,022	263	386
Decrease in inventories	17	745	–	–
(Decrease)/increase in trade and other payables	(3,600)	(2,171)	137	(306)
Cash generated from operations	4,306	13,144	(1,389)	(2,583)
Taxation paid	(302)	(5,653)	–	–
NET CASH IN/(OUT)FLOW FROM OPERATIONS	4,004	7,491	(1,389)	(2,583)
Investing activities:				
Interest received	12	15	8	15
Purchase of property, plant and equipment	(690)	(1,268)	–	–
Purchase of E&E assets	(5,816)	(7,400)	–	–
Cash inflow from disposals	5,250	3,672	–	–
Funding provided to Group subsidiaries	–	–	–	–
Funds from Group subsidiaries	–	–	4,036	7,578
NET CASH FLOW FROM INVESTING ACTIVITIES	(1,244)	(4,981)	4,044	7,593
Financing activities:				
Finance costs paid	(615)	(805)	(613)	(805)
Proceeds on exercise of options	56	45	56	45
Repayments of loans and borrowings	–	(11,800)	–	(11,800)
NET CASH FLOW FROM FINANCING ACTIVITIES	(559)	(12,560)	(557)	(12,560)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,201	(10,050)	2,098	(7,550)
Effect of exchange rates on cash and cash equivalents	198	(6)	184	(4)
Cash and cash equivalents at 1 January	19,946	30,002	19,142	26,696
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22,345	19,946	21,424	19,142

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 2012 were authorised for issue by the Board of Directors on 29 May 2013 and the balance sheets were signed on the Board's behalf by Antony Craven Walker and Chris Hearne. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales. The principal activity of the Company and the Group is to identify, acquire and subsequently exploit oil and gas reserves. Its current activities are located in the United Kingdom, Ireland, Namibia, Morocco and a retained interest in the Kambuna Field in Indonesia. The Company's ordinary shares are traded on AIM and the TSX.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2012. The Company's financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Company for the year ended 31 December 2012 and as applied in accordance with the provisions of the Companies Act 2006. The Group's financial statements are also prepared in accordance with IFRS as issued by the IASB. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The deficit dealt with in the financial statements of the parent Company was US\$2,964,000 (2011: US\$5,049,000).

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 2012.

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 Directors are required to consider the availability of resources to meet the Group and Company's liabilities for the foreseeable future.

The current business environment is challenging and access to new funding remains uncertain. The financial position of the Group, its cash flows and available resources are described in the Financial Review above and as at 31 December 2012 the Group had US\$22.3 million of net cash. However, significant liabilities of US\$6.9 million arising from the 2012 East Spaniards well in the UK North Sea have been settled since the year end, and as at 24 May 2013, cash and restricted cash balances held totaled US\$16.0 million. Plans are advanced to finance the Company's share of Columbus development costs when the final decision to proceed is made.

In making their going concern assessment, the Directors have determined that the Company has sufficient funds to meet its exploration and other commitments for 2013 but will need to secure additional funding for the Company's exploration programme from 1H2014.

The management is considering a range of strategic and financing options to achieve this. The Directors believe in the underlying strength and value in the Company's portfolio of assets which has been demonstrated by expressions of interest received from third parties and are of the opinion that the Group will be able to access funds to meet its ongoing working capital and committed capital expenditure requirements over the next 12 months. The strategic and capital raising alternatives open to the Company include the realisation of asset value through farm-out or sale, forward sale of production, corporate transactions as well as the issue of equity or other financial instruments. The Company has no debt or major commitments or other liabilities which are not covered by existing farm-out agreements with strongly financed companies. Accordingly, the financial statements have been prepared on a going concern basis.

Whilst the directors are confident that the corporate funding needs of the Group can be met, they recognise that there are inherent risks associated with achieving this, some of which, such as market risk or the actions of third parties, are not within the Company's control. The need to successfully conclude a financing option to provide additional funds beyond the end of 2013 indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Use of judgement and estimates and key sources of estimation uncertainty

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognised in the financial statements are: the assessment of commercial reserves, the impairment of the Group and Company's assets (including oil & gas development assets and Exploration and Evaluation "E&E" assets), decommissioning provisions and share-based payment costs. A key judgment in the preparation of the 2011 financial statements was the assessment of the disclosure of the Group's disposed Indonesian operations.

Assessment of commercial reserves

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

Impairment

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

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

Management is required to assess the carrying value of investments in subsidiaries in the parent company balance sheet for impairment by reference to the recoverable amount. This requires an estimate of amounts recoverable from oil and gas assets within the underlying subsidiaries (see note 17).

Decommissioning provisions

Based on the current plans for Kambuna it is expected that the field will be decommissioned in late 2013. The estimate of the costs to decommission is based on the proposed work plan. Actual costs may vary if a different approach to decommissioning is required or if the work proposed takes more or less time than expected.

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).

Disclosure of discontinued operations

At 30 June 2011, as a result of the Board's strategic decision to exit Indonesia, the Group's interests in the region were classified as a disposal group held for sale and therefore included as discontinued operations. The proposed disposal was noted as a core shift in strategy for the Serica Group, effected to re-allocate resources into new areas of Group focus. In October 2011 the Company disposed of its operated exploration portfolio in Indonesia to KrisEnergy Limited and closed its local office. The non-operated interest in the Kambuna TAC has not yet been disposed of. The Company considers its intention to exit operations in Indonesia to represent a single coordinated plan to dispose of a geographic area of business. Accordingly as at 31 December 2011 it was considered appropriate to classify the results of the disposed sector as discontinued (see note 7) since it was part of the single plan. The Company's interest in the Kambuna TAC was still considered as available for sale however it did not meet the definition of an asset held for sale, or a discontinued operation in accordance with IFRS 5 at the reporting date.

Basis of Consolidation

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

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

Foreign Currency Translation

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

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

Business Combinations and Goodwill

Business combinations from 1 January 2010

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

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

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

Joint Venture Activities

The Group conducts petroleum and natural gas exploration and production activities jointly with other venturers who each have direct ownership in and jointly control the assets of the ventures. These are classified as jointly controlled assets and the financial statements reflect the Group's share of assets and liabilities in such activities. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group and their amount can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

Exploration and Evaluation Assets

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

Pre-licence Award Costs

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

Exploration and Evaluation (E&E)

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

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

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

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

Asset Purchases and Disposals

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

Farm-ins

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

Property, Plant and Equipment – Oil and gas properties

Capitalisation

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

Depletion

Oil and gas properties are not depleted until production commences. Costs relating to each single field cost centre are depleted on a unit of production method based on the commercial proved and probable reserves for that cost centre. The depletion calculation takes

account of the estimated future costs of development of recognised proved and probable reserves. Changes in reserve quantities and cost estimates are recognised prospectively from the last reporting date.

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

In 2011 the Company assessed the expected useful life of the future economic benefits embodied in the asset and considered that given the relatively short remaining field life, the production profiles associated with proved reserves better reflected the expected pattern of consumption. Accordingly the Company concluded that it was appropriate to use proved reserves as a basis for the specific depletion calculation for the Kambuna field asset with effect from 1 July 2011. The impact of this change in accounting estimate in the 2011 financial statements is an increased depletion charge in the second half 2011 period of US\$2,320,000. The impact of the change in estimate on future periods is not considered practical to disclose.

Following the advancement of field shut-in plans and handover arrangements with Pertamina, the Company has concluded that, with effect from 1 October 2012, it is appropriate to use its best estimates of remaining production quantities as a basis to calculate the reserves for specific depletion and impairment calculations for the Kambuna field.

Impairment

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

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

Asset Disposals

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

Decommissioning

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

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

Property, Plant and Equipment - Other

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

Inventories

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

Investments

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

Financial Instruments

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

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

Equity-settled transactions

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

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

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

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

Income Taxes

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

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

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

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

Earnings Per Share

Earnings per share is calculated using the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all relevant potentially dilutive shares to ordinary shares. It is

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

assumed that any proceeds obtained on the exercise of any options and warrants would be used to purchase ordinary shares at the average price during the period. Where the impact of converted shares would be anti-dilutive, these are excluded from the calculation of diluted earnings.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2012. The adoption of the standards or interpretations is described below:

- i) Amendments to IFRS 7 – Disclosures – Transfers of Financial Assets
The IASB issued amendments to IFRS 7 effective for annual periods beginning on or after 1 July 2011. The adoption of the amendments did not have any impact on the financial position or performance of the Group.
- ii) Amendments to IFRS 1 – Severe Hyperinflation and removal of Fixed Dates for First-time Adopters
The IASB issued amendments to IFRS 1 effective for annual periods beginning on or after 1 July 2011. The adoption of the amendments did not have any impact on the financial position or performance of the Group.
- iii) Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets
The IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The adoption of the amendments did not have any impact on the financial position or performance of the Group.

Standards issued but not yet effective

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

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

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

IFRS 9 Financial Instruments: Classification and Measurement

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

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosure of Involvement with Other Entities

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

IFRS 13 Fair Value Measurement

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

The Directors anticipate the adoption of the Standards and Interpretations listed above will not have a material impact on the Financial Statements of the Group.

3. Segment Information

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

The following tables present revenue, profit and certain asset and liability information regarding the Group's geographical reportable segments for the years ended 31 December 2012 and 2011. Costs associated with the UK corporate centre are included in the UK & Ireland reportable segment. Reportable information in respect of the Group's interest in the producing Kambuna field in Indonesia is disclosed as a separate segment. The information for the Indonesia exploration segment disposed in October 2011 is classified as discontinued.

Year ended 31 December 2012

	UK & Ireland US\$000	Africa US\$000	Kambuna US\$000	Continuing Total US\$000	Discontinued US\$000
REVENUE	–	–	15,404	15,404	–
Continuing operations					
Other expenses	(5,664)	–	(6,239)	(11,903)	–
Pre-licence costs	(118)	(213)	–	(331)	–
Asset write-offs	(10,462)	–	–	(10,462)	–
Impairment	–	–	(4,361)	(4,361)	–
Depletion	–	–	(13,116)	(13,116)	–
Depreciation	(341)	–	–	(341)	–
Operating loss and segment loss	(16,585)	(213)	(8,312)	(25,110)	–
Loss on re-measurement				–	–
Profit on disposal				1,023	–
Finance revenue				12	–
Finance costs				(633)	–
Loss before taxation				(24,708)	–
Taxation charge for the year				–	–
LOSS AFTERTAXATION				(24,708)	–
	UK & Ireland US\$000	Africa US\$000	Kambuna US\$000	Total US\$000	
Other segment information:					
Exploration and evaluation assets	66,075	805	–	66,880	–
Plant, property and equipment	109	–	1,036	1,145	–
Other assets	16,960	1,831	7,344	26,135	–
Unallocated assets				7,750	–
TOTAL ASSETS	83,144	2,636	8,380	101,910	–
Segment liabilities	(8,639)	(979)	(3,660)	(13,278)	–
TOTAL LIABILITIES	(8,639)	(979)	(3,660)	(13,278)	–
Capital expenditure 2012:					
Exploration and evaluation assets	11,438	1,326	–	12,764	–
Property, plant and equipment	–	–	690	690	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Year ended 31 December 2011

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

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

Information on major customers is provided in note 4.

4. Sales Revenue

	2012 US\$000	2011 US\$000
Gas sales	7,966	15,093
Condensate sales	7,438	12,018
	15,404	27,111

Gas sales revenue in 2011 and 2012 arose from three customers, the most significant being PLN (2012: US\$4,592,000) and Pertiwi (2012: US\$2,538,000). All condensate sales revenue in 2011 and 2012 was from one customer, PLN.

5. Cost of Sales

	2012 US\$000	2011 US\$000
Operating costs	6,232	7,749
Depletion (see note 16)	13,116	17,716
Movement in inventories of oil	(18)	183
	19,330	25,648

6. Analysis of Expenses by Function

	2012 US\$000	2011 US\$000
Administrative	5,299	6,011
Asset write-offs	10,462	355
Other	5,423	5,059
	21,184	11,425

7. Discontinued Operation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

a) Results of discontinued operations

The results of the discontinued operations are presented below:

	Year ended 31 December 2012 US\$000	Year ended 31 December 2011 US\$000
SALES REVENUE	–	–
Cost of sales	–	–
GROSS PROFIT	–	–
Pre-licence costs	–	(292)
E&E and other asset write offs	–	(788)
Administrative expenses	–	(621)
Foreign exchange loss	–	(3)
Share-based payments	–	(203)
Depreciation	–	–
OPERATING LOSS	–	(1,907)
Other costs	–	(363)
Loss recognised on re-measurement to fair value	–	(3,720)
Profit on disposal	–	110
Finance revenue	–	–
LOSS BEFORE TAXATION	–	(5,880)
Taxation charge for the year	–	–
LOSS FOR THE YEAR	–	(5,880)
Loss per ordinary share (EPS)	US\$	US\$
Basic and diluted EPS on result in year	–	(0.03)

The loss per ordinary share for the discontinued operations is derived from the net loss attributable to equity holders of the parent from discontinued operations of US\$nil (2011: loss of US\$5,880,000), divided by the weighted average number of ordinary shares for both basic and diluted amounts as disclosed in note 14.

There are no taxation components within discontinued operations.

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

Year ended 31 December:	2012 US\$000	2011 US\$000
Operating cash (out)/inflows	–	(4,027)
Investing cash in/(out)flows	–	2,581
Financing cash outflows ⁽¹⁾	–	–
Net cash (out)flow	–	(1,446)

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

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

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

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

8. Group Operating Loss

	2012 US\$000	<i>2011 US\$000</i>
This is stated after charging:		
Depletion of oil and gas properties	13,116	17,716
Depreciation of other property, plant and equipment	341	348
TOTAL DEPRECIATION, DEPLETION AND AMORTISATION EXPENSE	13,457	18,064
Depletion of oil and gas properties is classified with cost of sales.		
Operating lease rentals (minimum lease payments):		
- Land and buildings	531	590
- Other	21	21
TOTAL LEASE PAYMENTS RECOGNISED AS AN EXPENSE	552	611

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. Auditor's Remuneration

	2012 US\$000	2011 US\$000
Audit of the Group accounts	101	109
Audit of the Company's accounts	34	37
Audit of accounts of Company's subsidiaries	19	16
TOTAL AUDIT FEES	154	162
	US\$000	US\$000
Other fees to auditor:		
Audit-related assurance services	–	59
Taxation advisory services	7	–
Other assurance services	–	26
	7	85

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

10. Staff Costs and Directors' Emoluments

a) Staff Costs

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

	2012 No.	2011 No.
Management	4	3
Technical	3	6
Finance and administration	4	6
	11	15

	US\$000	US\$000
Staff costs for the above persons:		
Wages and salaries	2,939	3,294
Social security costs	384	387
Other pension costs	209	421
Share-based long-term incentives (including related NI cost)	588	1,028
	4,120	5,130

Staff costs for key management personnel:

Short-term employee benefits	2,134	1,620
Post-employment benefits	91	91
Share-based payments	264	238
	2,489	1,949

b) Directors' Emoluments

The emoluments of the individual Directors were as follows. All sums are paid in £ Sterling but are converted to US\$ being the reporting currency for the purposes of the Company's accounts.

	Salary and fees 2012 US\$000	Contingent payments 2012 US\$000	Bonus 2012 US\$000	Pension 2012 US\$000	Benefits in kind 2012 US\$000	Total 2012 US\$000	Total 2011 US\$000
A Craven Walker ⁽¹⁾	364	238	–	–	–	602	112
P Ellis ⁽²⁾	–	–	–	–	–	–	154
C Hearne	372	–	37	37	7	453	491
P Sadler	423	–	42	42	2	509	557
M Flegg ⁽³⁾	124	–	37	12	3	176	–
N Pike	81	–	–	–	–	81	64
I Vann	65	–	–	–	–	65	56
S Theede	65	–	–	–	–	65	56
J Cartwright ⁽⁴⁾	30	–	–	–	–	30	56
J Harris ⁽⁵⁾	–	–	–	–	–	–	–
	1,524	238	116	91	12	1,981	1,546

(1) Mr Craven Walker has acted as Interim CEO following the retirement of Mr Ellis on 10 April 2011. At the request of Mr Craven Walker, the fees proposed, amounting to £150,000 (US\$238,000), were agreed to be payable contingent upon certain strategic milestones being achieved by the Company. These milestones, which related to the securing of certain asset sales, acreage awards, farm-outs and progress with field developments, were achieved by early 2012. The fees for the period from 10 April 2011 to that date were therefore paid in 2012 and are included under the category contingent payments in the table above. Since 1 May 2012, Mr Craven Walker has received a combined fee in respect of services as Chairman and Interim CEO pending the appointment of a successor to the CEO position, a process which is still underway. He is not entitled to any other award such as share options, share scheme, bonus, pension or medical insurance.

(2) Paul Ellis retired on 10 April 2011

(3) Mitch Flegg was appointed on 5 September 2012

(4) Jonathan Cartwright resigned on 28 June 2012

(5) Jeffrey Harris was appointed on 20 December 2012

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

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

11. Finance Revenue

	2012 US\$000	2011 US\$000
Bank interest receivable	8	15
Other interest receivable	4	–
TOTAL FINANCE REVENUE	12	15

12. Finance Costs

	2012 US\$000	2011 US\$000
Bank loans	615	1,354
Unwinding of discount	18	40
TOTAL FINANCE COSTS	633	1,394

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. Taxation

	2012 US\$000	2011 US\$000
a) Tax charged/(credited) in the income statement		
Charge for the year	–	4,520
Adjustment in respect of prior years	–	(32)
Total current income tax charge	–	4,488
Deferred tax		
Origination and reversal of temporary differences in the current year	–	(1,339)
Adjustment in respect of prior years	–	–
Adjustment to reflect tax rate changes in recognition of deferred tax	–	–
Total deferred tax (credit)	–	(1,339)
TAX CHARGE IN THE INCOME STATEMENT	–	3,149

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

The tax in the income statement for the year differs from the amount that would be corporation tax in the UK of expected by applying the standard UK corporation tax rate for the following reasons:

	2012 US\$000	2011 US\$000
Accounting loss before taxation – continuing operations	(24,708)	(11,341)
Accounting loss before taxation – discontinued operations	–	(5,880)
Accounting loss before taxation	(24,708)	(17,221)
Expected tax credit at standard UK corporation tax rate of 24.5% (2011 – 26.5%)	(6,053)	(4,564)
Expenses not deductible for tax purposes	432	2,441
Unrecognised deferred tax assets	6,920	5,456
Gain on disposal not chargeable to tax	(261)	–
Prior period adjustment	–	(32)
Different foreign tax rates	(1,038)	(152)
TAX CHARGE REPORTED IN THE INCOME STATEMENT	–	3,149

c) Unrecognised tax losses

The benefit of approximately US\$110.2 million (2011: US\$81.7 million) of tax losses has not been recognised in these consolidated statements which reflects the extent of the total available UK tax losses that have not been set against a deferred tax liability arising. The Group has UK tax losses of approximately US\$167.2 million (2011: US\$138.7 million) that are available indefinitely for offset against future trading profits of the companies in which the losses arose. Of this amount US\$57.0 million (2011: US\$57.0 million) has been set off against taxable temporary differences.

d) Deferred tax

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

	2012 US\$000	2011 US\$000
Deferred tax liability:		
Temporary differences on capital expenditure	(35,336)	(35,357)
Temporary difference on decommissioning asset	–	(396)
Deferred tax liability	(35,336)	(35,753)
Deferred tax asset:		
Temporary difference on future recoverable costs	–	–
Tax losses carried forward	35,336	35,357
Temporary difference on decommissioning provision	–	396
Deferred tax asset	35,336	35,753
NET DEFERRED TAX LIABILITY	–	–

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

	2012 US\$000	2011 US\$000
Deferred tax in the income statement:		
Temporary differences on capital expenditure	(21)	4,297
Temporary difference on future recoverable costs	–	1,833
Tax losses carried forward	21	(7,469)
Temporary difference on decommissioning asset	(396)	(235)
Temporary difference on decommissioning provision	396	235
DEFERRED INCOMETAX (CREDIT)	–	(1,339)

e) Changes to UK corporation tax legislation

The 2013 Budget proposed a reduction in the main rate of UK corporation tax to 21% for the year commencing 1 April 2014, and 20% for the year from 1 April 2015 and beyond. The UK corporation tax rate for ring-fenced trading profits remains 62%.

On 21 March 2012 the UK Government announced its intention to increase the extent to which the Small Field Allowance ("SFA") is available in respect of small developments. The proposals would extend the allowance to fields with reserves of 6.25 million tonnes from the current threshold of 3.5 million tonnes and would increase the allowance available in respect of a qualifying field from £75m (US\$120m) to £150m (US\$240m).

f) Unrecognised deferred tax liability

In 2012 there are no material temporary differences associated with investments with subsidiaries for which deferred tax liabilities have not been recognised.

g) Company

The Company has US\$22.3 million (2011: US\$ 20.2 million) of UK corporation tax losses for which are not recognised as deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. Earnings Per Share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. As a result of the net loss for the years ended 31 December 2011 and 2012, there is no dilutive effect of the share options in these years.

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

	2012 US\$000	2011 US\$000
Net loss from continuing operations	(24,708)	(14,490)
Net loss attributable to equity holders of the parent	(24,708)	(20,370)
	2012 '000	2011 '000
Basic weighted average number of shares	177,743	176,657
Diluted weighted average number of shares	177,743	176,657
	2012 US\$	2011 US\$
Basic and diluted EPS on loss on continuing operations (US\$)	(0.14)	(0.08)
Basic and diluted EPS on loss for the year (US\$)	(0.14)	(0.12)

15. Exploration and Evaluation Assets

Group	Total US\$000
Cost:	
1 January 2011	68,604
Additions	7,400
Disposals (note 7)	(6,921)
31 December 2011	69,083
Additions	12,764
Relinquished licences	(143)
Write offs	(9,664)
Disposals	(5,160)
31 December 2012	66,880
Provision for impairment:	
1 January 2011 and 1 January 2012	–
Impairment charge for the year	–
31 December 2012	–
Net book value:	
31 DECEMBER 2012	66,880
31 DECEMBER 2011	69,083
1 JANUARY 2011	68,604

Disposals in E&E assets in 2012 arose in the first quarter from the farm-out of an interest in the Company's Namibian licence to BP, and in the third quarter from farm-outs of interests in Morocco and the UK. The re-imburement due for the past costs capitalised as E&E assets is treated as a reduction from the book cost of the asset. The accounting gain of US\$1.0 million on disposal recorded in the Q1 2012 income statement relates to the recognition of recovery for those past Namibia costs incurred that had been expensed as pre-licence costs in previous periods. See Results of Operations in the Financial Review above.

Total asset write-offs expensed in the income statement in 2012 were US\$10.5 million. This charge comprised E&E asset write-offs (US\$9.7 million), costs of relinquished licences (US\$0.1 million), a charge against obsolete inventory in Indonesia (US\$0.6 million) and other minor amounts. The most significant component of E&E asset write-offs is the Q4 2012 charge of US\$8.8 million which related to the costs incurred on the Spaniards East well in the UK North Sea.

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

Company

The Company has no E&E assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. Property, Plant and Equipment

	Oil and gas properties	Computer/IT Equipment	Fixtures, Fittings & Equipment	Total
Group Cost	US\$000	US\$000	US\$000	US\$000
1 January 2011	61,005	286	949	62,240
Additions	1,189	–	79	1,268
Reclassifications	121	–	(121)	–
Decommissioning asset	283	–	–	283
Disposals	–	(97)	(6)	(103)
31 December 2011	62,598	189	901	63,688
Additions	690	–	–	690
Decommissioning revisions	(446)	–	–	(446)
31 December 2012	62,842	189	901	63,932
Depreciation and depletion				
1 January 2011	24,299	208	187	24,694
Charge for the year	17,716	38	310	18,064
Disposals	–	(97)	(6)	(103)
Impairment	2,314	–	–	2,314
31 December 2011	44,329	149	491	44,969
Charge for the year	13,116	32	309	13,457
Impairment	4,361	–	–	4,361
31 December 2012	61,806	181	800	62,787
Net book value				
31 DECEMBER 2012	1,036	8	101	1,145
31 DECEMBER 2011	18,269	40	410	18,719
1 JANUARY 2011	36,706	78	762	37,546

Impairment of oil and gas properties

The Group performed its annual impairment test as at 31 December 2011 and 2012. In assessing whether a write-down is required in the carrying value of a potentially impaired item of property, plant and equipment or goodwill, the asset's carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Oil and gas properties include an impairment calculated in accordance with IAS 36 - Impairment of assets, of US\$4,361,000 (2011: US\$2,314,000) attributed to oil and gas properties determined by estimating the value in use of the assets. This impairment charge is against the Group's only gas condensate producing asset, Glagah Kambuna in Indonesia. The impairment has primarily arisen following the trigger of a downwards revision to field reserves estimates.

The recoverable amount of Kambuna has been determined on a value in use calculation using a discounted cash flow model. The projected cash flows are adjusted for risks specific to the asset and are discounted using a pre-tax discount rate. This discount rate is derived from the Group's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks relating to the region where the cash generating unit is located. In 2011, a 12% discount rate was applied to cash flow projections and cash flows were extrapolated using a 2% growth rate. In 2012, given the short-term nature of cash flows, no discount or extrapolation rates were used.

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

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

Other

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

Borrowing interest payable costs relating to drilling of development wells, that have been capitalised within oil and gas properties during 2009, prior to the commencement of production, amounted to US\$1,200,000, at a weighted average interest of 4.6%.

Company

The Company has no property, plant and equipment.

17. Investments

	Total US\$000
Company – Investment in subsidiaries	
Cost:	
1 January 2011 and 2012	130,684
Increase in investment	2,000
31 December 2012	<u>132,684</u>
Provision for impairment:	
1 January 2011 and 1 January 2012	(118,854)
Impairment charge for the year	–
31 December 2012	<u>(118,854)</u>
Net book amount:	
31 December 2012	<u>13,830</u>
31 December 2011	<u>11,830</u>
1 January 2011	<u>11,830</u>

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

The increase in investment of US\$2,000,000 during the year represents the value of shares issued by Serica Energy plc as part of the consideration paid to NAMCOR (see note 25) for the Company's interests in Namibia which are held by Serica Energy Namibia B.V.

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

The provisions for impairment arising in 2010 of US\$118,854,000 against the investment in subsidiaries, and US\$7,339,000 against amounts owed by Group undertakings (see note 20) have been made following a fall in value in certain of the oil and gas assets held by the Company's subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Details of the investments in which the Group and the Company (unless indicated) hold 20% or more of the nominal value of any class of share capital are as follows:

Name of company:	Holding	Nature of business	% voting rights and shares held 2012	% voting rights and shares held 2011
Serica Holdings UK Ltd	Ordinary	Holding	100	100
Serica Energy Holdings B.V. ^(i & iii)	Ordinary	Holding	100	100
Serica Energy (UK) Ltd ⁽ⁱ⁾	Ordinary	Exploration	100	100
Serica Glagah Kambuna BV ^(i & iii)	Ordinary	Development	100	100
Serica Sidi Moussa BV ^(i & iii)	Ordinary	Exploration	100	100
Serica Fom Draa BV ^(i & iii)	Ordinary	Exploration	100	100
Serica Energy Slyne BV ^(i & iii)	Ordinary	Exploration	100	100
Serica Energy Rockall BV ^(i & iii)	Ordinary	Exploration	100	100
Serica Energia Iberica SL ^(i & iv)	Ordinary	Exploration	100	100
Serica Energy Corporation ^(i & ii)	Ordinary	Dormant	100	100
Serica Energy Namibia BV ^(i & iii)	Ordinary	Exploration	100	100
APD Ltd ^(i & ii)	Ordinary	Dormant	100	100
APD (Asahan) Ltd ^(i & ii)	Ordinary	Dormant	100	100
APD (Biliton) Ltd ^(i & ii)	Ordinary	Dormant	100	100
PDA Asia Ltd ^(i & ii)	Ordinary	Dormant	100	100
PDA (Lematang) Ltd ⁽ⁱ⁾	Ordinary	Dormant	100	100
Entities sold in 2011				
Serica Indonesia Holdings BV ⁽ⁱⁱⁱ⁾	Ordinary	Holding	–	–
Serica Kutei BV ⁽ⁱⁱⁱ⁾	Ordinary	Exploration	–	–
Serica East Seruway BV ⁽ⁱⁱⁱ⁾	Ordinary	Exploration	–	–
Serica Energy Pte Ltd ^(v)	Ordinary	Admin	–	–

(i) Held by a subsidiary undertaking

(ii) Incorporated in the British Virgin Islands

(iii) Incorporated in the Netherlands

(iv) Incorporated in Spain

(v) Incorporated in Singapore

18. Other Non-current Assets

	Group 2012 US\$000	2011 US\$000	Company 2012 US\$000	2011 US\$000
FINANCIAL ASSETS	–	394	–	394
OTHER RECEIVABLES	1,706	3,613	–	–

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

Other receivables are represented by value added tax ("VAT") on Indonesian capital spend, which would be recovered from the Indonesian authorities. Amounts at 31 December 2012 are disclosed net of an impairment of US\$427,000 (2011: US\$611,000).

19. Inventories

	Group 2012 US\$000	2011 US\$000	Company 2012 US\$000	2011 US\$000
Condensate stocks	282	264	–	–
Materials and spare parts	199	1,308	–	–
	481	1,572	–	–

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. US\$609,000 was expensed in the income statement as an asset write-off against materials and spare parts in 2012 (2011: US\$ nil).

20. Other Current Receivables

	Group 2012 US\$000	2011 US\$000	Company 2012 US\$000	2011 US\$000
Due within one year:				
Amounts owed by Group undertakings	–	–	110,824	114,860
Trade receivables	2,099	3,696	–	–
Amounts recoverable from JV partners	3,451	1,076	–	–
Back costs recoverable	933	–	–	–
Other receivables	2,009	4,096	611	397
Prepayments and accrued income	449	470	333	55
TRADE AND OTHER RECEIVABLES	8,941	9,338	111,768	115,312
FINANCIAL ASSETS	412	647	412	647

Trade receivables at 31 December 2012 arise from two customers, PLN and Pertiwi. The Other receivables balance above primarily relates to VAT.

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

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

At the reporting date the amounts owed by Group undertakings to the Company are disclosed net of an impairment of US\$7,339,000 (2011: US\$7,339,000) – see note 17.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. Cash and Short-Term Deposits

	Group 2012 US\$000	2011 US\$000	Company 2012 US\$000	2011 US\$000
Cash at bank and in hand	14,595	8,546	13,674	7,742
Short-term deposits	7,750	11,400	7,750	11,400
	22,345	19,946	21,424	19,142

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

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

	S&P credit rating	Group 2012 US\$000	2011 US\$000	Company 2012 US\$000	2011 US\$000
HSBC Bank plc	A-1+	7,929	6,229	7,898	6,031
J.P. Morgan Chase	A-1	7,824	7,320	7,824	7,320
Barclays Bank plc	A-1	6,567	6,364	5,700	5,790

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

22. Trade and Other Payables

	Group 2012 US\$000	2011 US\$000	Company 2012 US\$000	2011 US\$000
Current:				
Trade payables	7,264	857	505	370
Other payables	4,413	9,410	575	263
	11,677	10,267	1,080	633

23. Provisions

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

	2012 US\$000	2011 US\$000
At 1 January	2,029	1,706
Additions	–	283
Decommissioning estimate revisions (see note 16)	(446)	–
Unwinding of discount	18	40
At 31 December	1,601	2,029

The decommissioning for the Kambuna field is expected to take place from 2013. Payments made in the period into a restricted fund are recognised as a separate asset within other receivables and not deducted from the gross liability.

24. Financial Instruments

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

Serica has exposure to interest rate fluctuations on its cash deposits and bank loans; given the level of expenditure plans over 2013/14 this is managed in the short-term through selecting treasury deposit periods of one to three months. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise concentration and counterparty risk.

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

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

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

Bank loans

Throughout 2011 and 2012, the Company has had access to a three-year US\$50 million debt facility, which was arranged in November 2009 with J.P.Morgan plc, Bank of Scotland plc and Natixis as Mandated Lead Arrangers. This facility was principally to refinance the Company's outstanding borrowings on the Kambuna field. It was also originally put in place partly to finance the appraisal and development of the Columbus field and for general corporate purposes.

Although all outstanding amounts under the Company's debt facility were fully repaid in February 2011, the facility was rolled forward until February 2013 whilst the directors reviewed the funding requirements and options available for the Columbus field development. Following the good progress that had initially been made with BG on the development of the Columbus field, the Company was actively engaged in arranging financing to enable this to be achieved. In March 2013, in light of the current expected timing requirements for the Company's share of Columbus project development costs, the Company decided to allow the facility to expire. This decision will save ongoing unutilised fee costs and was made in light of other financing options that are under review. Plans are advanced to finance the Company's share of Columbus development costs when the final decision to proceed is made.

As at 31 December 2012 the facility was secured by first charges over the Group's interests in the Kambuna field in Indonesia and the Columbus field in the UK North Sea and the shares of certain subsidiary companies. This security was released following the expiry of the facility in March 2013.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Interest Rate Risk Profile of Financial Assets and Liabilities

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

Group

Year ended 31 December 2012

	Within 1 year US\$000	1-2 years US\$000	2-5 years US\$000	Total US\$000
Fixed rate				
Short-term deposits	7,750	–	–	7,750
Short-term financial assets	412	–	–	412
Long-term financial assets	–	–	–	–
				8,162

	Within 1 year US\$000	1-2 years US\$000	2-5 years US\$000	Total US\$000
Floating rate				
Cash	14,595	–	–	14,595
				14,595

Year ended 31 December 2011

	Within 1 year US\$000	1-2 years US\$000	2-5 years US\$000	Total US\$000
Fixed rate				
Short-term deposits	11,400	–	–	11,400
Short-term financial assets	647	–	–	647
Long-term financial assets	–	394	–	394
				12,441

	Within 1 year US\$000	1-2 years US\$000	2-5 years US\$000	Total US\$000
Floating rate				
Cash	8,546	–	–	8,546
Bank loans	–	–	–	–
				8,546

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

Increase/decrease in interest rate	Effect on loss before tax 2012 US\$000	Effect on loss before tax 2011 US\$000
+0.75%	169	160
-0.75%	(169)	(160)

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

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

Company

Year ended 31 December 2012

	Within 1 year US\$000	1-2 years US\$000	2-5 years US\$000	Total US\$000
Fixed rate				
Short-term deposits	7,750	–	–	7,750
Short-term financial assets	412	–	–	412
Long-term financial assets	–	–	–	–
				8,162
Floating rate				
Cash	13,674	–	–	13,674
Bank loans	–	–	–	–
				13,674

Year ended 31 December 2011

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

Credit risk

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Foreign currency risk

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

	Group		Company	
	2012	<i>2011</i>	2012	<i>2011</i>
	US\$000	<i>US\$000</i>	US\$000	<i>US\$000</i>
Cash and cash equivalents:				
Pounds sterling	5,524	504	5,059	165
Canadian dollars	5	9	5	4
Norwegian kroner	13	20	–	–
Indonesian rupiah	25	27	–	–
Euros	404	229	–	–
<hr/>				
Accounts receivable:				
Pounds sterling	1,264	2,664	712	1,094
<hr/>				
Trade payables:				
Pounds sterling	8,203	3,116	529	377
Canadian dollars	–	1	–	1
Euros	108	83	43	78

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

	Effect on (loss)	<i>Effect on (loss)</i>
	before tax	<i>before tax</i>
	2012	<i>2011</i>
	US\$000	<i>US\$000</i>
Increase/decrease in foreign exchange rate		
10% strengthening of US\$ against £GBP	(141)	(5)
10% weakening of US\$ against £GBP	141	5

Liquidity risk

The table below summarises the maturity profile of the Group and Company's financial liabilities at 31 December 2012 based on contractual undiscounted payments. The Group monitors its risk to a potential shortage of funds by monitoring the maturity dates of existing debt.

Group				
Year ended 31 December 2012	Within 1 year	1 to 2 years	2 to 5 years	Total
	US\$000	US\$000	US\$000	US\$000
Trade and other payables	11,677	–	–	11,677
Year ended 31 December 2011	<i>Within 1 Year</i>	<i>1 to 2 years</i>	<i>2 to 5 years</i>	<i>Total</i>
	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
Trade and other payables	10,267	–	–	10,267
Company				
Year ended 31 December 2012	Within 1 year	1 to 2 years	2 to 5 years	Total
	US\$000	US\$000	US\$000	US\$000
Trade and other payables	1,080	–	–	1,080

<i>Year ended 31 December 2011</i>	<i>Within 1 Year US\$000</i>	<i>1 to 2 years US\$000</i>	<i>2 to 5 years US\$000</i>	<i>Total US\$000</i>
Trade and other payables	633	–	–	633

Commodity price risk

During 2011 and 2012, all of the Group's gas production was sold at fixed contracted prices.

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

Fair values of financial assets and liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements.

Group	Book value		Fair value	
	2012 US\$000	2011 US\$000	2012 US\$000	2011 US\$000
Financial assets				
Cash and deposits	22,345	19,946	22,345	19,946
Non-current financial assets	-	394	-	394
Current financial assets	412	647	412	647
Trade and other receivables *	8,492	8,868	8,492	8,868
Financial liabilities				
Trade and other payables *	(11,677)	(10,267)	(11,677)	(10,267)
Company	Book value		Fair value	
	2012 US\$000	2011 US\$000	2012 US\$000	2011 US\$000
Financial assets				
Cash and deposits	21,424	19,142	21,424	19,142
Non-current financial assets	-	394	-	394
Current financial assets	412	647	412	647
Trade and other receivables *	111,435	115,257	111,435	115,257
Financial liabilities				
Trade and other payables *	(1,080)	(633)	(1,080)	(633)

* at amortised cost

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

Capital management

The primary objective of the Group's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration and development expenditure, and to safeguard the entity's ability to continue as a going concern and create shareholder value. At 31 December 2012, capital employed of the Group amounted to US\$88.6 million (comprised of US\$88.6 million of equity shareholders' funds and US\$nil million of borrowings), compared to US\$110.7 million at 31 December 2011 (comprised of US\$110.7 million of equity shareholders' funds and US\$nil of borrowings).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

At 31 December 2012, capital employed of the Company amounted to US\$146.4 million (comprised of US\$146.4 million of equity shareholders' funds and US\$nil million of borrowings), compared to US\$146.7 million at 31 December 2011 (comprised of US\$146.7 million of equity shareholders' funds and US\$nil million of borrowings).

25. Equity Share Capital

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

The share capital of the Company comprises one "A" share of £50,000 and 182,770,310 ordinary shares of US\$0.10 each. The "A" share has no special rights.

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

Allotted, issued and fully paid:				
Group	Number	Share capital US\$000	Share premium US\$000	Total Share capital US\$000
As at 1 January 2011	176,570,311	17,747	189,910	207,657
Options exercised ⁽ⁱ⁾	90,000	9	36	45
31 December 2011	176,660,311	17,756	189,946	207,702
Options exercised ⁽ⁱⁱ⁾	110,000	11	45	56
Shares issued ⁽ⁱⁱⁱ⁾	6,000,000	600	1,400	2,000
AS AT 31 DECEMBER 2012	182,770,311	18,367	191,391	209,758

Allotted, issued and fully paid:				
Company	Number	Share capital US\$000	Share premium US\$000	Total Share capital US\$000
As at 1 January 2011	176,570,311	17,747	154,638	172,385
Options exercised ⁽ⁱ⁾	90,000	9	36	45
As at 31 December 2011	176,660,311	17,756	154,674	172,430
Options exercised ⁽ⁱⁱ⁾	110,000	11	45	56
Shares issued ⁽ⁱⁱⁱ⁾	6,000,000	600	1,400	2,000
AS AT 31 DECEMBER 2012	182,770,311	18,367	156,119	174,486

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

ii) In April 2012, 110,000 share options were converted to ordinary shares at a price of £0.32.

iii) In November 2012, 6,000,000 ordinary shares were issued to NAMCOR as part of the consideration for the interest in the Luderitz basin acquired in December 2011. NAMCOR had the option to take the shares or US\$2 million in cash. The valuation of the shares issued is based on the cash alternative as value of the equity alternative when the deal was agreed was less than the cash alternative. At 31 December 2011 the US\$2 million was accrued within Trade and other payables.

26. Additional Cash Flow Information

Analysis of Group net cash

Year ended 31 December 2012	1 January 2012 US\$000	Cash flow US\$000	Non-cash movements US\$000	31 December 2012 US\$000
Cash	8,546	5,851	198	14,595
Short-term deposits	11,400	(3,650)	–	7,750
	19,946	2,201	198	22,345

Year ended 31 December 2011

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

Analysis of Company net cash

Year ended 31 December 2012	1 January 2012 US\$000	Cash flow US\$000	Non-cash movements US\$000	31 December 2012 US\$000
Cash	7,742	5,748	184	13,674
Short-term deposits	11,400	(3,650)	–	7,750
	19,142	2,098	184	21,424

Year ended 31 December 2011

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. Share-Based Payments

Share Option Plans

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

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

As at 31 December 2012, the Company has granted 17,732,460 options under the Serica 2005 Option Plan, 9,058,460 of which are currently outstanding. The Serica 2005 Option Plan will govern all future grants of options by the Company to Directors, officers, key employees and certain consultants of the Group.

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

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

5,094,690 of the 9,058,460 options currently outstanding under the Serica 2005 Option Plan are exercisable only if certain performance targets being met. These include the following options subject to market conditions; 110,000 options awarded to an executive director in December 2005, 350,000 options awarded to an executive director in March 2008 and 1,425,000 options awarded to executive directors in January 2010. In October 2008, 750,000 options were awarded to an executive director exercisable only if certain operational performance targets are met. In April 2011, 200,000 options were awarded to an executive director and 200,000 options were awarded to an employee exercisable only if certain operational performance targets are met. In October 2012 a further 1,200,000 share options under the Serica 2005 Option Plan were granted to three executive directors, all of these options are subject to performance conditions. Details of the performance conditions attached are provided in the Directors' Report.

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain market conditions) to estimate the fair value of share options at the date of grant. There are no cash settlement alternatives. The estimated fair value of options is amortised to expense over the options' vesting period. US\$570,000 has been charged to the income statement in continuing operations for the year ended 31 December 2012 (2011 – US\$844,000) and a similar amount credited to the share-based payments reserve, classified as 'Other reserve' in the Balance Sheet. US\$ nil has been charged to the income statement in discontinued operations for the year ended 31 December 2012 (2011 – US\$203,000). US\$264,000 (2011 – US\$238,000) of the total continuing operations charge was in respect of key management personnel (defined in note 9).

The options granted in 2011 and 2012 were consistently valued in line with the Company's valuation policy, assumptions made included a weighted average risk-free interest rate of 3%, no dividend yield, a weighted average expected life of three years, and a volatility factor of expected market price of 50%. The weighted fair value of options granted during the year was £0.11 (2011:£0.11).

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

Serica BVI option plan	2012	2012	2011	2011
	Number	WAEP Cdn\$	Number	WAEP Cdn\$
Outstanding as at 1 January	1,900,000	1.46	1,900,000	1.46
Expired during the year	–	–	–	–
Outstanding as at 31 December	1,900,000	1.46	1,900,000	1.46
Exercisable as at 31 December	1,900,000	1.46	1,900,000	1.46
Serica 2005 option plan		£		£
Outstanding as at 1 January	10,183,000	0.75	12,864,500	0.78
Granted during the year	3,344,960	0.24	450,000	0.31
Exercised during the year	(110,000)	0.32	(90,000)	0.32
Cancelled during the year	(3,159,500)	0.81	(3,041,500)	0.81
Expired during the year	(1,200,000)	0.99	–	–
Outstanding as at 31 December	9,058,460	0.52	10,183,000	0.75
Exercisable as at 31 December	3,060,000	0.73	6,655,833	0.82

The weighted average share price at the date of exercise for the options exercised in 2012 is £0.35 (2011: £0.40).

The weighted average remaining contractual life of options outstanding as at 31 December 2012 is 5.8 years (2011: 5.1 years).

For the Serica BVI option plan, the exercise price for outstanding options at the 2012 year end ranges from Cdn\$1.00 to Cdn\$2.00 (2011: Cdn\$1.00 to Cdn\$2.00). For the Serica 2005 option plan, the exercise price for outstanding options at the 2012 year end ranges from £0.21375 to £1.04 (2011: £0.31 to £1.12).

28. Commitments under Operating Leases

Operating lease agreements where the Group is lessee

At 31 December 2012 the Group has entered into commercial leases in respect of rental of office premises and office equipment. Future minimum rentals payable under non-cancellable operating leases are as follows:

	Group	2011	Company	2011
	2012	2011	2012	2011
	US\$000	US\$000	US\$000	US\$000
Not later than one year	146	538	–	–
Later than one year and not later than five years	–	140	–	–
	146	678	–	–

In February 2013, the Company entered into a new five year office operating lease with a minimum commitment period of one year, expiring in April 2014.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. Capital Commitments and Contingencies

At 31 December 2012, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation assets amounted to US\$nil million for the Group and US\$nil for the Company (2011: US\$nil and US\$nil respectively).

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. The Company is not obliged to meet other joint venture partner shares of these programmes.

In the UK North Sea, the partners in Licence P1906 (York Area) have obligations to acquire seismic data in the first licence period. Plans are now advanced to acquire this in 2013 and Serica's estimated 40% paying share is US\$1.8 million.

In Morocco, the partners on the Fom Draa licence expect to drill the first exploration commitment well in Q4 2013. The Company is carried for its share of expenditure up to a gross cap of US\$60 million. Serica has currently budgeted to pay some US\$3.5 million, being its paying share of costs over and above the agreed cap to the farm-in carry.

Under the terms of the Company's Namibian licence, the value of work performed in 2012 by the JV partners on the 3D Seismic acquisition programme has exceeded the minimum obligation expenditure on exploration work of US\$15.0 million covering the entire initial four year period of the licence, ending in December 2015.

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

The Group has to provide security for a proportion of its future obligations to defined work programmes or other commitments and fulfils this obligation through the Company providing US\$0.4 million of cash collateral included as a financial asset (restricted cash) as at 31 December 2011 (2011: US\$1.0 million).

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

30. Related Party Transactions and Transactions with Directors

There are no related party transactions, or transactions with Directors that require disclosure except for the remuneration items disclosed in the Directors Report and note 10 above. These disclosures include the compensation of key management personnel.

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

31. Post Balance Sheet Events

In late March 2013, BG informed Serica, as Operator of the Columbus field, that it had decided not to proceed with the construction of the BLP. As a consequence, the Columbus group are obliged to review other alternatives for the export of Columbus gas and liquids production. This includes the possibility of the Columbus field being tied directly to the Lomond Platform. Serica has reviewed this option with its partners and with BG and all parties believe this to be a technically viable alternative. The impact on the Columbus sub-sea development programme and timetable would be minimal on this basis but the success of this option depends upon being able to agree reasonable commercial terms in the required time frame. Discussions are ongoing but the company is also reviewing several other offtake options.

GROUP PROVED PLUS PROBABLE RESERVES – UNAUDITED

Group Proved plus Probable Reserves – Unaudited

	Western Europe Oil mmbbl	Indonesia Gas bcf	Total Oil mmbbl	Total Gas bcf	Total Oil mmbbl	Gas bcf	Oil & gas mmboe
At 1 January 2012	1.6	23.6	0.3	4.4	1.9	28.0	6.8
Revisions	–	(0.5)	(0.2)	(2.7)	(0.2)	(3.2)	(0.9)
Production	–	–	(0.1)	(1.4)	(0.1)	(1.4)	(0.4)
At 31 December 2012	1.6	23.1	0.0	0.3	1.6	23.4	5.5
Proved developed	–	–	0.0	0.3	0.0	0.3	0.1
Proved undeveloped	0.9	12.9	–	–	0.9	12.9	3.0
Probable developed	–	–	–	–	–	–	–
Probable undeveloped	0.7	10.2	–	–	0.7	10.2	2.4
At 31 December 2012	1.6	23.1	0.0	0.3	1.6	23.4	5.5

Proved and probable reserves are based on independent reports prepared by consultants Netherland, Sewell & Associates (for the Columbus Field in the UK North Sea) in accordance with the reserve definitions of the Canadian Oil and Gas Evaluation Handbook. Gas reserves at 31 December 2012 have been converted to barrels of oil equivalent using a factor of 6.0 bcf per mmboe for Western Europe (Columbus field reserves) on the basis of a nominal gas calorific value of 1,000 BTU per cubic foot.

Proved and probable reserves for the Kambuna Field in Indonesia in the table above, as at 1 January 2012, are based on independent reports prepared by consultants RPS Energy in accordance with the reserve definitions of the Canadian Oil and Gas Evaluation Handbook. Gas reserves at 1 January 2012 and 31 December 2012 have been converted to barrels of oil equivalent using a factor of 4.8 bcf per mmboe for Indonesia (Kambuna field reserves) on the basis of a nominal gas calorific value of 1,240 BTU per cubic foot.

In view of the expected field shut-in and handover to Pertamina in Q3 2013, remaining economic hydrocarbon reserves as at 31 December 2012 are of an immaterial level, equating to the estimated levels of declining production in the remaining months of 2013 prior to handover. Accordingly no independent reserves audit has been performed in 2012.

GLOSSARY

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

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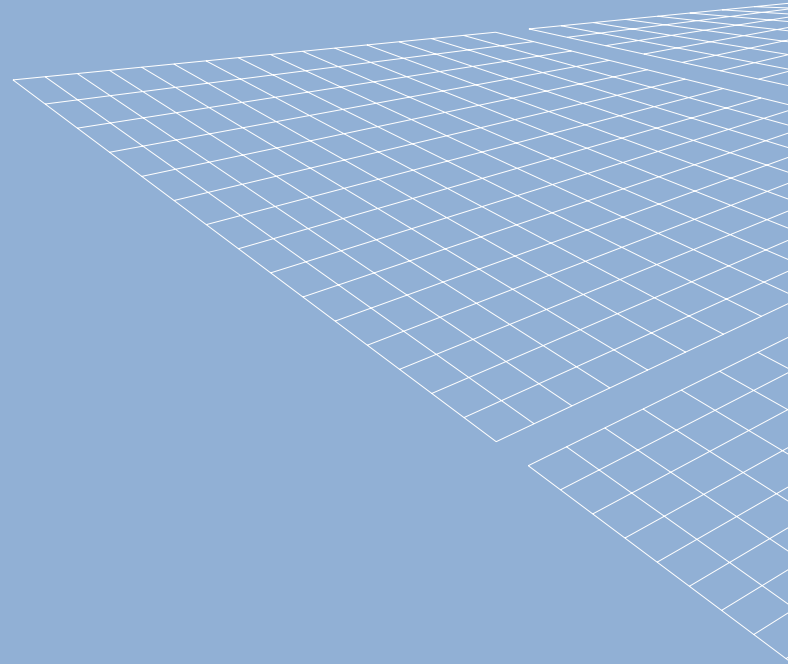
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Annual General Meeting

27 June 2013
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