

SERICA ENERGY PLC  
SECOND QUARTER 2012 REPORT TO  
SHAREHOLDERS

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

The following management discussion and analysis ("MD&A") of the financial and operational results of Serica Energy plc ("Serica") and its subsidiaries (together the "Group") contains information up to and including 10 August 2012 and should be read in conjunction with the attached unaudited interim consolidated financial statements for the period ended 30 June 2012, which have been prepared by and are the responsibility of the Company's management and have not been reviewed by the Company's independent auditors.

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

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

### **OVERVIEW – QUARTER ENDED 30 JUNE 2012**

Serica has made very good progress in all its operations throughout the first half of 2012 and ends the second quarter with increased cash resources.

#### **Financial**

The Company has strengthened its financial position during the quarter

- The Company received a US\$5 million back cost contribution following the farm-out in Namibia and ended the quarter with an unrestricted cash balance of US\$23.3 million, 40% up over the quarter and 16.7% up on the balance held at the start of the year.
- This improved cash position underpins the Company's planned exploration programmes in the UK, Namibia, Morocco and Ireland where material prospectivity has been identified.
- The exploration programmes are expected to be accelerated following completion of current farm-out negotiations.
- The Company has no debt and an undrawn US\$50 million facility. Discussions are taking place with a number of debt providers to supplement this facility to fund the development of Columbus following project sanction being granted by the Department of Energy and Climate Change ("DECC").
- During the first half the Kambuna field contributed sales revenue of US\$8.5 million to Serica's net interest (US\$4.4 million in the second quarter).

#### **Operations**

The Company is involved in projects with substantial upside potential all of which are progressing well

- The Columbus field development project has been agreed amongst all partners and application has been made to the Department of Energy and Climate Change ("DECC"), on schedule, for the grant of project sanction enabling discussions on project financing to be completed. The operator for the infrastructure required for the export of gas and condensate production from Columbus, BG, has confirmed plans for this infrastructure to be in place for Columbus production to commence in the first half of 2015, slightly later than the anticipated end 2014.

- In Namibia, the 3D seismic operation in the Luderitz Basin commenced in May with 60% of the target survey completed in early August. Data quality is excellent and processing, which has commenced, will be running in parallel with the ongoing survey.
- In Morocco, the Company is in the final stage of negotiations to farm out its interests in the Foug Draa and Sidi Moussa blocks and application is being made to enter the second period of both licences with a commitment to drill two wells, one in each block.
- In Ireland the focus is on accelerating the exploration programme in both the Rockall Basin and Slyne Basin areas where the Company has extensive holdings including the large, high potential Muckish prospect and nearby Midleton and West Midleton prospects. A farm-out process commenced at the end of the second quarter covering the Rockall basin blocks and is expected to continue throughout the third quarter with plans for pre-drilling site survey work to take place in 2013.
- In the UK, the Company has agreed to farm down its 100% interest in Block 22/19c. Active farm-out discussions are ongoing in respect of certain other blocks. In the East Irish Sea, Doyle awaits the completion of the 27<sup>th</sup> Licensing Round before drilling and, in the southern North Sea, the operator of the York area blocks has deferred the seismic operation to 2013. Discussions continue with interested parties on the farm-out of the Company's interest in the South Otter blocks in the northern North Sea.
- The Bream field in Norway, in which Serica has a significant economic interest, saw development plans progress in the first half. The field operator announced plans in the second quarter for the drilling of up to seven development wells to commence in the fourth quarter of 2013 and last for about 13 months. Contracts are under tender for the facilities and wells ahead of formal project sanction which is expected in the second half of 2012 with first oil targeted for late 2015. The Company is due a substantial payment on commencement of production.

## **FORWARD PROGRAMME**

The Company has a very active forward programme and a very clear strategic objective.

### **Operations**

- In Namibia, weather conditions have extended the survey schedule but data quality is good and the survey is expected to complete towards the end of the third quarter. This will be followed by a period of data processing and interpretation. The existing 2D seismic data has already demonstrated the presence of material, high impact drilling prospects and the 3D data is expected to enhance the potential.
- In Morocco, completion of the farmouts, expected to be announced shortly, will allow the Foug Draa and Sidi Moussa blocks to be extended into the next exploration stage with the strong likelihood of an early drilling campaign, possibly as early as 2013.
- In the North Sea, drilling operations will commence with the WilPhoenix rig contracted to drill an appraisal of the Spaniards discovery well 15/21a-38z. The well is expected to commence drilling at the beginning of October and take approximately 40 days to drill. Serica has a 21% interest in the prospect and will be contributing 30% to the drilling cost.
- In the East Irish Sea, drilling plans are progressing to drill the Doyle prospect following completion of the current 27<sup>th</sup> Licensing Round whilst, in the North Sea,

drilling of the South Otter block remains subject to an ongoing farm-out programme. An approach has been received for a farm-out of the Doyle prospect.

### **Forward Prospects**

Serica is very well placed to expand on the clear potential of its portfolio of properties and prospects in emerging Atlantic margin basins and will continue to seek ways to unlock value and build on this position. In the North Sea, project sanction is expected to be received shortly for the Columbus field development, which Serica operates, and the Company looks forward to bringing this project onto production whilst also keeping under review ways of bringing forward the full value of this project for the benefit of shareholders.

Serica has valuable properties in the UK, Norway, offshore Ireland and offshore West Africa and, in the current depressed market conditions, has received a number of proposals relating to these assets. Whilst Serica's focus is on building and realising the full potential of its business for the benefit of shareholders, the Company is carefully and objectively in line with its previously stated strategy and in the normal course of business evaluating all proposals which might provide a means of accelerating the value of the Company's assets and enhancing shareholder value whilst also preserving the unrealised upside for future growth.

## **DETAILED OPERATIONS OVERVIEW**

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.

The Company operates a large proportion of its licences. In the UK it is the Development Operator of the Columbus field. It operates all of its East Irish Sea licences and Northern North Sea Blocks 210/19a and 210/20a. In Namibia it is Operator for its Luderitz Basin Blocks where it is now conducting one of the largest 3D offshore seismic surveys in Namibia to-date. In Morocco it is Technical Operator for the Fom Draa and Sidi Moussa Blocks. In Ireland it operates twelve blocks in the Rockall Basin and three in the Slyne Basin. This places Serica in a very strong position to unlock the value in its properties.

During the second quarter of 2012 the Company continued to make major steps to demonstrate the value of its oil and gas and exploration licences. Its business activities are now 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.

Serica is positioned as a Company with no debt, a development project and near term drilling in the UK and overseas, an expanding position in new Atlantic Margin plays offshore Europe and Africa which hold great potential and ongoing production in Indonesia.

## **SUMMARY OF LICENCE HOLDINGS**

The following summary gives further detailed information on Serica's licence interests in which activities took place during, and subsequent to, the end of the second quarter.

### **United Kingdom**

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

The Columbus field, containing gas rich in condensates, extends from Block 23/16f to the south into Block 23/21 operated by BG International Limited ("BG"), which includes the Lomond platform and the producing Lomond field.

During the first quarter of 2012 all participants of 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) will 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 will 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%.

These agreements enable the Columbus project to proceed to project sanction. Application has been made to DECC on schedule for the grant of project sanction which will enable discussions on project financing to be completed. Field development is planned to be completed by the end of 2014 with field production in the first half of 2015 following installation of the BLP, slightly later than originally expected, and subsequent hook-up to the Columbus sub-sea system.

Independent consultant Netherland, Sewell & Associates ("NSAI") carried out a reserves report on the Columbus field for the end of 2011. This report estimated that the gross Proved plus Probable Reserves of the field are 70.6 bcf of gas and 4.9 mm bbl of liquids, a total of 16.7 mmboe. 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 23.6 bcf of sales gas and 1.6 mmbbl of liquids, a net 5.6 mmboe to Serica.

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

Block 15/21g, in which Serica was initially awarded a 30% interest, lies immediately west of the Scott oil field and is believed to contain a potentially significant extension to the oil discovery in Block 15/21a made by well 15/21-38z in good quality Jurassic-aged Upper Claymore sand. An agreement was finalised in January 2012 with the participants of Block 15/21a to combine the two blocks. Serica now has a 21% interest in the amalgamated area.

The Operator has contracted the semisubmersible rig WilPhoenix to drill a well to appraise the discovery. The well is expected to commence at the beginning of October following release from its current contract. Serica will be contributing a 30% share of the drilling cost of the first well and a 17.14% share of the cost of drilling a follow-up well if a second well is drilled.

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

These blocks, in which Serica has a 100% interest, are a contiguous block and part block lying immediately south of the producing Otter oilfield. A number of oil prospects have been provisionally identified at Jurassic Brent Group and Home Sand levels. Two of the Brent Group prospects are down-faulted traps and the other is a conventional Brent fault block. The fourth prospect is in a Jurassic reservoir known as the Home Sand. Drilling of the South Otter blocks remains subject to an ongoing farm-out programme.

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

Serica has a 65% 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. Plans are in hand for the well to be drilled but, in view of adjacent open acreage, are held pending the outcome of the UK 27<sup>th</sup> Licensing Round, expected later this year.

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

In December 2011, Serica was awarded a 100% interest and the operatorship of Block 110/8b. The work commitment comprises a 3D seismic reprocessing programme, planned to delineate the Darwen North gas prospect which has been identified in the block. The block also contains a small undeveloped oil discovery which will be re-evaluated.

#### 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. A 3D seismic survey is planned to be undertaken by the partnership in 2013.

## **Norway**

Serica holds a significant economic interest in the Bream 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. The field operator announced plans in the second quarter for the drilling of up to seven development wells to commence in the fourth quarter of 2013 and last for about 13 months. It has also been announced that contracts are under tender for the facilities and wells ahead of formal project sanction which is expected in the second half of 2012 with first oil targeted for late 2015.

## **Ireland**

Rockall Basin: Blocks 5/17, 5/18, 5/22, 5/23, 5/27, and 5/28 - Muckish Prospects and Blocks 11/5, 11/10, 11/15, 12/1, 12/6 and 12/11(part) - Midleton and West Midleton Prospects

Serica holds a 100% working interest in two licences covering twelve blocks and part blocks over an area totalling 2,220 square kilometres in the north-eastern part of the Rockall Basin in the Atlantic margin off the west coast of Ireland. The presence of a hydrocarbon system in the Basin has been proven by the Dooish gas-condensate discovery.

A large exploration prospect, Muckish, has been mapped in Blocks 5/22 and 5/23. Further evaluation of 3D seismic data coverage and the Dooish gas-condensate discovery lying nearby to the south east, 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. Blocks 11/10 and 12/6 contain two further pre-Cretaceous fault block prospects, Midleton and West Midleton, identified from existing 3D seismic data. Like Muckish these are analogous to the nearby gas-condensate bearing Dooish discovery. Serica is undertaking 2D and 3D seismic reprocessing work and other geological studies to firm up these two additional prospects.

At the end of the second quarter the Company commenced a farm-out programme in preparation for drilling the large, high potential Muckish prospect.

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

These blocks cover an area of 611 square kilometres in the Slyne Basin off the west coast of Ireland. 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, Liffey and Boyne which also overlay separate, deeper gas prospects in the Triassic Sherwood sandstone. The Company has acquired site survey data in preparation for a drilling programme to test these prospects.

## **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.

Upon signature, the Company agreed to make the following payments to NAMCOR in respect of the award:

- US\$1 million cash payment
- US\$2 million through an allotment of 6 million ordinary shares of Serica (which represents approximately 3.28% of the enlarged issued share capital of Serica). To the extent that the value of 6 million ordinary shares is more than US\$2 million on the day of allotment, then the Company may reduce the number of shares allotted; alternatively, if the value is less than US\$2 million, the Company may either increase the number of shares allotted or pay the cash equivalent of the difference to NAMCOR.

The cash payment was made to NAMCOR in January 2012. The share allotment is subject to a regulatory consent required from the Ministry of Finance. The consent had not been received by the end of the second quarter. If this consent is not received, the payment will be paid in cash.

The blocks contain a number of very large structures which are evident from existing 2D seismic data. During the second quarter the Company commenced a major survey with a target acquisition of up to 4,150 square kilometres of 3D seismic data to fully delineate prospects identified in the south east of the blocks. 60% of the target survey was completed in early August, more than meeting in full the obligations for seismic acquisition under the terms of the licence. Weather conditions have extended the survey schedule but data quality is good and the survey is expected to complete towards the end of the third quarter. Processing of the data has commenced and will continue in parallel with continuing data acquisition.

During the second quarter, Serica completed a farm-out to BP under which Serica reduced its interest in the licence to 55% in return for a payment to recover past costs and the full cost of the survey being met by BP. Serica has also granted an option for BP to increase its interest in the licence by meeting the full cost of drilling and testing a deep-water exploration well to the Barremian level before the end of the first four year exploration period. In the event that this option is exercised by BP, the Company's interest in the licence will be 17.5% carried through drilling and testing the first well. Serica will continue to be the Operator of the licence during the initial seismic period with BP taking over as Operator if it exercises its option to drill and test a well.

## **Morocco**

### Sidi Moussa and Fom Draa Petroleum Agreements

Serica holds 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 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, Serica, in conjunction with its partners, conducted a farm-out exercise in respect of both blocks. This generated considerable industry interest and resulted in the receipt of farm-in proposals for the two blocks. The Company is now in the final stage of negotiations to farm out its interests in the blocks with completion of the negotiations expected shortly. Applications are being made to enter the second period of both licences with a commitment to drill two deep water wells, one on each licence. The farm-in terms will be announced once the agreements have been finalised.

## **Indonesia**

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

Serica's sole remaining interest in Indonesia is its 25% interest in the Glagah Kambuna Technical Assistance Contract ("TAC") offshore North Sumatra which contains the producing Kambuna gas field. Whilst the Company continues to benefit from the cash flow it receives from this field, it does not consider the asset to be core to its forward strategy.

The Kambuna field has commenced its natural decline and production rates are expected to fall in line with reservoir pressure depletion. Compression facilities to arrest this production decline were successfully installed in February 2012 and were fully functional in May following a period of commissioning and facilities de-bottlenecking. The partnership is reviewing areas where cost cutting can prolong the economic life of the field but, under current projections, the field is expected to reach the end of its economic life during 2013.

During the second quarter the field produced at an average rate of 19 mmscfd (Q2 2011: 40 mmscfd, Q1 2012: 16 mmscfd) with approximately 1,072 barrels per day of condensate (Q2 2011: 2,699 bpd, Q1 2012 1,000 bpd). Average prices realised during the quarter for gas and condensate sales respectively were US\$6.5 per mcf (Q2 2011: US\$6.2 per mcf, Q1 2012: US\$6.4 per mcf) and US\$123.6 per barrel (Q2 2011: US\$120.2 per barrel, Q1 2012: US\$125.0 per barrel). The highest price achieved during 2012 is US\$130 per barrel, achieved in March.

Serica commissioned an independent reserves audit on the Kambuna field for its 2011 annual reserves filings. This reserves report, carried out by RPS Energy, the same consultants as used by the Operator, estimates that at 31 December 2011 the gross Proved plus Probable Reserves of the field are 17.5 bcf of sales gas and 1.1 mm bbl of condensate, a total of 4.7 mmboe. In view of the anticipated near term depletion of the field, which is expected to occur in 2013, the Company bases its financial planning and reporting for the Kambuna field on Proved reserves only, which RPS Energy estimated to be, at 31 December 2011, 11.2 bcf of sales gas and 0.6 mm bbl of liquids, a total of 2.9 mmboe.

## FINANCIAL REVIEW

A detailed review of the Q2 2012 results of operations and other financial information is set out below.

### 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 continuing operations comprise the core business hubs of the UK Offshore and Atlantic Margin basin interests, together with the Kambuna field interest in Indonesia. Discontinued operations comprise the Indonesian exploration business disposal group that was sold in October 2011.

The financial results of the Kambuna field interest had previously been disclosed in the Q2 2011 and Q3 2011 reports to shareholders as part of discontinued operations but are now disclosed within continuing operations together with the results of the retained core business segments. The three and six month ended 30 June 2011 financial results detailed below have therefore been restated to only disclose the Indonesian exploration business disposal group as 'discontinued'.

	Three months ended 30 June		Six months ended 30 June	
	2012	Restated* 2011	2012	Restated* 2011
	US\$000	US\$000	US\$000	US\$000
<b>Continuing operations</b>				
Sales revenue	4,417	6,613	8,455	15,190
Cost of sales	(4,915)	(5,452)	(9,176)	(12,465)
Gross (loss)/profit	(498)	1,161	(721)	2,725
Expenses:				
Pre-licence costs	(134)	(641)	(245)	(869)
E&E and other asset write offs	(136)	-	(136)	-
Administrative expenses	(1,340)	(1,550)	(2,755)	(3,001)
Foreign exchange gain	59	22	106	89
Share-based payments	(145)	(194)	(320)	(466)
Depreciation	(85)	(86)	(169)	(175)
Operating loss before net finance revenue and taxation	(2,279)	(1,288)	(4,240)	(1,697)
Gain on disposal	-	-	1,023	-
Finance revenue	1	2	4	10
Finance costs	(168)	(210)	(340)	(1,032)
Loss before taxation	(2,446)	(1,496)	(3,553)	(2,719)
Taxation credit/(charge)	284	(243)	-	(909)
Loss for the period from continuing operations	(2,162)	(1,739)	(3,553)	(3,628)
<b>Discontinued operations</b>				
Loss for the period from discontinued operations	-	(4,636)	-	(5,212)
<b>Loss for the period</b>	<b>(2,162)</b>	<b>(6,375)</b>	<b>(3,553)</b>	<b>(8,840)</b>

Earnings per share (EPS)	US\$	US\$	US\$	US\$
Basic and diluted EPS on loss from continuing operations	(0.01)	(0.01)	(0.02)	(0.02)
Basic and diluted EPS on loss for the period	(0.01)	(0.04)	(0.02)	(0.05)

\* Restated for discontinued operations

### **Continuing operations**

Serica generated a gross loss of US\$0.5 million for the three months ended 30 June 2012 ("Q2 2012") from its retained 25% interest in the Kambuna Field (Q2 2011: gross profit of US\$1.2 million).

#### *Sales revenues*

The Company currently generates all its sales revenue from the Kambuna field in Indonesia. Revenue is recognised on an entitlement basis for the Company's net working field interest. 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.

The field has now commenced its anticipated natural decline and production rates began to fall 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 Q2 2012, gross Kambuna field gas production averaged 18.8 mmscf per day (Q2 2011 39.7 mmscf per day) together with average condensate production of 1,072 barrels per day (Q2 2011 2,699 barrels per day). The Q2 2012 gas production was sold at prices averaging US\$6.46 per mscf (Q2 2011 US\$6.20 per mscf) and generated US\$2.5 million (Q2 2011 US\$3.9 million) of revenue net to Serica. Condensate production is stored and sold when lifted at a price referenced to the Indonesia Attaka official monthly crude oil price. Liftings in the period earned US\$2.0 million (Q2 2011 US\$2.7 million) of revenue net to Serica at an average price of US\$123.6 per barrel (Q2 2011 US\$120.2 per barrel).

#### *Cost of sales and depletion charges*

Cost of sales were driven by production from the Kambuna field and totalled US\$4.9 million in Q2 2012 (Q2 2011: US\$5.5 million). The charge comprised direct operating costs of US\$2.0 million (Q2 2011 US\$1.5 million), non cash depletion of US\$3.0 million (Q2 2011 US\$3.8 million) offset by an increase in condensate inventory of US\$0.1 million (Q2 2011 US\$0.2 million decrease).

Operating costs per boe increased significantly in the Q1 and Q2 2012 periods as reduced production levels were not offset by corresponding reductions in production costs. Depletion charges per boe have also increased for the Q2 2012 period against Q2 2011 as 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.

#### *Other expenses and income*

The Company generated a loss before tax from continuing operations of US\$2.4 million for Q2 2012 compared to a loss before tax of US\$1.5 million for Q2 2011.

Pre-licence costs include direct cost and allocated general administrative cost incurred on oil and gas interests prior to the award of licences, concessions or exploration rights. The expense of US\$0.1 million incurred in Q2 2012 is not significant. More material pre-licence work was performed in Q2 2011 and later 2011 quarters, culminating 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.

There were no significant asset write offs in continuing operations in Q2 2012 (Q2 2011: US\$nil).

Administrative expenses of US\$1.3 million for Q2 2012 decreased from US\$1.6 million for the same period last year. The Company continues to reduce overheads and expects savings to give further benefit in 2012.

The impact of foreign exchange was not significant in Q2 2012 or Q2 2011.

Share-based payment costs of US\$0.1 million in Q2 2012 reflected share options granted and compare with US\$0.2 million for Q2 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 is to earn a 30% interest in the licence by meeting the full cost of an extensive 3D seismic survey. As a result of the farm-out, Serica's interest in the licence following completion of the seismic survey will be 55%. The accounting gain of US\$1.0 million on disposal recorded in Q1 2012 and disclosed in the six months ended 30 June 2012 income statement relates to the recognition of recovery for those past costs incurred that had been expensed as pre-licence costs in previous periods. The re-imburement 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 comprising bank deposit interest income has been negligible in both periods.

Finance costs consist of interest payable, arrangement costs spread over the term of the bank loan facility and other fees. All outstanding liabilities were fully repaid in February 2011 causing a reduction in expense to US\$0.2 million in Q2 2011 and Q2 2012. All facility arrangement costs have been amortised and no interest is currently payable. The only ongoing cost related to other minor fees.

The Q2 2012 current taxation credit of US\$0.3 million arose from Kambuna field operations. The Q2 2011 charge of US\$0.2 million also arose from Kambuna and comprised a current tax charge of US\$1.6 million and a deferred tax credit of US\$1.4 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\$0.01 for Q2 2012 compares to a net loss per share of US\$0.01 for Q2 2011.

## Summary of Quarterly Results

Quarter ended:	2012 30 June US\$000	2012 31 Mar US\$000	2011 31 Dec US\$000	2011 30 Sep US\$000	2011 30 Jun US\$000	2011 31 Mar US\$000	2010 31 Dec US\$000	2010 30 Sep US\$000
Sales revenue	4,417	4,038	5,342	6,579	6,613	8,577	9,413	10,018
(Loss)/profit for the quarter	(2,162)	(1,391)	(4,101)	(7,429)	(6,375)	(2,465)	(40,112)	281
Basic and diluted loss per share US\$	(0.01)	(0.01)	(0.02)	(0.04)	(0.04)	(0.01)	(0.22)	-
Basic and diluted earnings per share US\$	-	-	-	-	-	-	-	0.002

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

The second quarter 2011 loss includes a charge of US\$3.7 million recognised on the re-measurement to fair value of the Indonesian exploration disposal group.

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

## Discontinued operations

The results of discontinued operations below are those generated from Serica's South East Asia exploration business which was 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% interest in Kambuna has not been sold. The directors concluded that as at 31 December 2011, 31 March 2012 and 30 June 2012, 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.

	Three months ended 30 June		Six months ended 30 June	
	2012	*Restated 2011	2012	*Restated 2011
	US\$000	US\$000	US\$000	US\$000
<b>Discontinued operations</b>				
Expenses:				
Pre-licence costs	-	(133)	-	(143)
E&E and other asset write offs	-	(170)	-	(509)
Administrative expenses	-	(220)	-	(418)
Foreign exchange gain	-	-	-	1
Share-based payments	-	(30)	-	(60)
Operating loss	-	(553)	-	(1,129)
Other	-	(363)	-	(363)
Loss recognised on remeasurement to fair value	-	(3,720)	-	(3,720)
Finance costs	-	-	-	-
Loss before taxation	-	(4,636)	-	(5,212)
Taxation charge	-	-	-	-
Loss for the period	-	(4,636)	-	(5,212)
Earnings per share (EPS)	US\$	US\$	US\$	US\$
Basic and diluted EPS on loss for the period from discontinued operations	-	(0.03)	-	(0.03)

\* Restated for discontinued operations

Asset write-offs in Q1 and Q2 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 June 2011) after deducting booked asset costs and other transaction costs and fees.

## Working Capital, Liquidity and Capital Resources

### Current Assets and Liabilities

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

	30 June 2012 US\$000	31 March 2012 US\$000	31 December 2011 US\$000
Current assets:			
Inventories	1,802	1,672	1,572
Trade and other receivables	10,576	15,521	9,338
Financial assets	1,410	669	647
Cash and cash equivalents	23,277	16,640	19,946
Total Current assets	37,065	34,502	31,503
Less Current liabilities:			
Trade and other payables	(11,082)	(9,274)	(10,267)
Income tax payable	-	(284)	(302)
Total Current liabilities	(11,082)	(9,558)	(10,569)
Net Current assets	25,983	24,944	20,934

At 30 June 2012, the Company had net current assets of US\$26.0 million which comprised current assets of US\$37.1 million less current liabilities of US\$11.1 million, giving an overall increase in working capital of US\$1.1 million in the three month period.

Inventories increased from US\$1.7 million to US\$1.8 million over the Q2 2012 period.

Trade and other receivables at 30 June 2012 totalled US\$10.6 million. The decrease in amounts receivable from the Q1 2012 balance of US\$15.5 million is largely caused by the receipt of Namibian asset back cost contributions of US\$5.0 million from BP in June. These amounts were settled when the formal approvals for the farm-out transaction were obtained from the relevant authorities. The balance as at 30 June 2012 includes; US\$4.7 million of trade debtors from gas and condensate sales from the Kambuna field, advance payments on ongoing operations, short-term Indonesian VAT receivables, recoverable amounts from partners in joint venture operations in the UK, Morocco and Indonesia, sundry UK and Kambuna asset working capital balances, and prepayments.

Financial assets at 30 June 2012 represented US\$1.4 million of restricted cash deposits.

Cash and cash equivalents increased from US\$16.6 million to US\$23.3 million in the quarter chiefly due to the receipt of US\$5.0 million of Namibian back-cost contributions in June. During Q2 2012 the Company also benefitted from US\$3.4 million of cash receipts from Kambuna field revenues and recoveries of Indonesian VAT. Cash outflows were incurred on Kambuna field operating costs, ongoing exploration work in Morocco and on the Columbus field development. Other costs included exploration work across the portfolio in the UK and Ireland together with new venture costs, ongoing administrative costs and corporate activity.

Trade and other payables of US\$11.1 million at 30 June 2012 include US\$2.0 million of signature payment liabilities arising on the award of the Namibian licences in December, US\$1.7 million payable to a JV partner in Namibia, and trade creditors and accruals from the Kambuna and Columbus operations. Other items include sundry creditors and accruals from the ongoing exploration programmes in the UK and Ireland, payables for administrative expenses and other corporate costs.

The current tax payable 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.

### Long-Term Assets and Liabilities

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

	30 June 2012 US\$000	31 March 2012 US\$000	31 December 2011 US\$000
Exploration & evaluation assets	67,114	66,442	69,083
Property, plant and equipment	13,945	16,496	18,719
Financial assets	-	274	394
Long-term other receivables	2,535	3,377	3,613
Provisions	(2,040)	(2,035)	(2,029)
Deferred income tax liabilities	-	-	-

During Q2 2012, total investments in petroleum and natural gas properties represented by exploration and evaluation assets ("E&E assets") increased from US\$66.4 million to US\$67.1 million. These amounts exclude the Kambuna development costs which are classified as property, plant and equipment.

The net US\$0.7 million increase in Q2 2012 consists of additions on continuing operations incurred on ongoing exploration work in Morocco, Ireland and the UK, on the Columbus FDP, and G&A. Expenditure on the ongoing 3D seismic survey on the Luderitz basin licence interests in Namibia is being carried by BP. The Q1 2012 decrease in E&E assets of US\$2.6 million consists of US\$1.4 million of additions less US\$4.0 million of back cost contributions recognised in Q1 2012 following the Company's farm-out of Namibia licence interests to BP.

Property, plant and equipment chiefly comprise the net book amount of the capital expenditure on the Company's interest in the Kambuna development. During Q2 2012, the Company's investment decreased from US\$16.1 million to US\$13.7 million. This US\$2.4 million decrease comprised depletion charges of US\$3.0 million arising from the production of gas and condensate, partially offset by US\$0.6 million of capex additions in the period. The property, plant and equipment also included balances of US\$0.3 million (31 December 2011: US\$0.5 million) for office fixtures and fittings and computer equipment.

All financial assets at 30 June 2012 are classified as short-term.

Long-term other receivables of US\$2.5 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 30 June 2012 (31 December 2011: US\$2.0 million) are in respect of Kambuna field decommissioning payments in Indonesia.

There is no deferred income tax liability recorded as at 30 June 2012.

## Shareholders' Equity

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

	30 June 2012 US\$000	31 March 2012 US\$000	31 December 2011 US\$000
Total share capital	207,758	207,702	207,702
Other reserves	19,795	19,650	19,475
Accumulated deficit	(120,016)	(117,854)	(116,463)

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\$19.7 million to US\$19.8 million in Q2 2012 reflects proportional charges in the period for options issued in 2012 and prior years.

## Asset values and Impairment

At 30 June 2012 Serica's market capitalisation stood at US\$72.6 million (£46.5 million), based upon a share price of £0.263, which was exceeded by the net asset value at that date of US\$107.3 million. By 10 August 2012 the Company's market capitalisation had decreased to US\$71.5 million. Management conducted a thorough review of the carrying value of its assets and determined that no further write-downs were required beyond those already disclosed above.

## Capital Resources

### *Available financing resources and debt facility*

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

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

The Company's current facility was arranged in November 2009 for a three-year period with J.P.Morgan plc, Bank of Scotland plc and Natixis as Mandated Lead Arrangers. The facility initially covered US\$100 million and was principally set up to refinance the Company's outstanding borrowings on the Kambuna field. It was also put in place to finance the appraisal and development of the Columbus field and for general corporate purposes.

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

At 30 June 2012, the Company held cash and cash equivalents of US\$23.3 million and US\$1.4 million of short-term restricted cash in continuing operations. Overall, the current cash balances held, the revenues from the retained 25% Kambuna interest, and the control that the Company can exert over the timing and cost of its exploration

programmes both through operatorship and through farm-outs leave it well placed to manage its commitments.

#### *Summary of contractual obligations*

The following table summarises the Company's contractual obligations as at 30 June 2012;

Contractual Obligations	Total US\$000	<1 year US\$000	1-3 years US\$000	>3 years US\$000
Long-term debt	-	-	-	-
Operating leases	409	409	-	-
Other long term obligations	1,805	500	1,305	-
Total contractual obligations	2,214	909	1,305	-

Other long-term obligations relate to decommissioning payments in Indonesia.

#### *Lease commitments*

At 30 June 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 2012	269
31 December 2013	140

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

As at 30 June 2012, there were no material outstanding capital acquisition costs expected on the Kambuna project.

The Company also typically has obligations to carry out defined work programmes on its oil and gas properties, under the terms of the award of rights to these properties. The Company is not obliged to meet other joint venture partner shares of these programmes.

Following the finalisation of the amalgamation agreement to combine the Central North Sea Blocks 15/21g and 15/21a in January 2012, the venture partners will be drilling an appraisal well in 2H 2012. Serica's estimated 30% share of costs is approximately US\$7.0 million.

The most significant other obligations were in respect of the Company's recently awarded Namibian licence. Under the terms of the Company's Namibian licence awarded in December 2011, the Company has a minimum obligation expenditure on exploration work of US\$15.0 million covering the entire initial four year period of the licence, ending in December 2015. Following the Q1 2012 farm-out transaction with BP noted in the operations review, the Company's work programme obligation will be carried by a third party. As at 30 June 2012, the value of work done on the ongoing 3D Seismic acquisition programme had exceeded the minimum obligation expenditure on the licence.

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

### Financial Instruments

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

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

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

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

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

## Share Options

As at 30 June 2012, the following director and employee share options were outstanding:

<b>Expiry Date</b>	<b>Amount</b>	<b>Exercise cost Cdn\$</b>
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

  

		<b>Exercise cost £</b>
August 2012	1,200,000	1,182,000
September 2012	7,000	6,790
September 2012	500,000	410,000
September 2012	750,000	510,000
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

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.

In April 2012, 1,902,500 share options were cancelled.

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

## Outstanding Share Capital

As at 10 August 2012, the Company had 176,770,311 ordinary shares issued and outstanding.

## Business Risk and Uncertainties

Serica, like all companies in the oil and gas industry, operates in an environment subject to inherent risks 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:

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

<b>Operations:</b> Operations may not go according to plan leading to damage, pollution, cost overruns and poor outcomes.	
Risk	Mitigation
Individual wells may not deliver recoverable oil and gas reserves	<ul style="list-style-type: none"> <li>• Thorough pre-drill evaluations are conducted to identify the risk/reward balance</li> <li>• Exposure is selectively mitigated through farm-out</li> </ul>
Wells may blow out or equipment may fail causing environmental damage and delays	<ul style="list-style-type: none"> <li>• The Group retains fully trained and experienced personnel</li> <li>• The planning process involves risk identification and establishment of mitigation measures</li> <li>• Emphasis is placed on engaging experienced contractors</li> <li>• Appropriate insurances are retained</li> </ul>
Production may be interrupted generating significant revenue loss	<ul style="list-style-type: none"> <li>• Serica's only producing field, Kambuna, is in the later stages of production and insurance is not considered cost-effective</li> </ul>

Operations may take far longer or cost more than expected	<ul style="list-style-type: none"> <li>• Management applies rigorous budget control</li> <li>• Adequate working capital is retained to cover reasonable eventualities</li> </ul>
Resource estimates may be misleading curtailing actual production and reducing reserves estimates	<ul style="list-style-type: none"> <li>• The Group deploys qualified personnel</li> <li>• Ongoing performance is monitored</li> <li>• Regular third-party reports are commissioned</li> </ul>

<b>Personnel:</b> The company relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies	
<b>Risks</b>	<b>Mitigation</b>
Key personnel may be lost to other companies	<ul style="list-style-type: none"> <li>• The Remuneration Committee regularly evaluates total compensation to ensure the Company remains competitive</li> </ul>
Personal safety may be at risk in demanding operating environments, typically offshore	<ul style="list-style-type: none"> <li>• A culture of safety is encouraged throughout the organisation</li> <li>• Responsible personnel are designated at all appropriate levels</li> <li>• The Group maintains up-to-date emergency response resources and procedures</li> <li>• Insurance cover is carried in accordance with industry best practice</li> </ul>
Staff and representatives may find themselves exposed to bribery and corrupt practices	<ul style="list-style-type: none"> <li>• Company policies and procedures are communicated to personnel regularly</li> <li>• Management reviews all significant contracts and relationships with agents and governments</li> </ul>

<b>Commercial environment:</b> World and regional markets continue to be volatile with fluctuations and access issues that might hinder the company's business success	
<b>Risk</b>	<b>Mitigation</b>
Volatile commodity prices mean that the company cannot be certain of the future sales value of its products	<ul style="list-style-type: none"> <li>• Kambuna gas is sold under long-term contracts and similar arrangements will be considered for Columbus production</li> <li>• Such contracts can be supplemented by price hedging although none is currently in place for Kambuna condensate</li> <li>• Budget planning considers a range of commodity pricing</li> </ul>
The company may not be able to get access, at reasonable cost, to infrastructure and product markets when required	<ul style="list-style-type: none"> <li>• A range of different off-take options have been considered for Columbus and field partners are currently in advanced negotiation</li> </ul>
Credit to support field development programmes may not be available at reasonable cost	<ul style="list-style-type: none"> <li>• Serica's existing facility was designed to fund part of Columbus capital costs</li> <li>• Funding requirements for Kambuna were significantly mitigated through part disposal</li> </ul>

<p>Fiscal regimes may vary, increasing effective tax rates and reducing the expected value of reserves</p>	<ul style="list-style-type: none"> <li>• Operations are currently spread over a range of different fiscal regimes in Indonesia, Western Europe and Africa</li> <li>• Before committing to a significant investment the likelihood of fiscal term changes is considered when evaluating the risk/reward balance</li> </ul>
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In addition to the principal risks and uncertainties described herein, the Company is subject to a number of other risk factors generally, a description of which is set out in our latest Annual Information Form available on [www.sedar.com](http://www.sedar.com).

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

The principal activity of the Company is to identify, acquire and subsequently exploit oil and gas reserves. Its 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 three month period ended 30 June 2012 the Company generated a loss of US\$2.2 million from continuing operations. At 30 June 2012 the Company had US\$23.3 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 operations. Further details of the Company's financial resources and debt facility are given above in the Financial Review in this MD&A.

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

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

### **Additional Information**

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

Approved on Behalf of the Board

(Signed) "*Antony Craven Walker*"

Antony Craven Walker  
Chief Executive Officer

(Signed) "*Christopher Hearne*"

Christopher Hearne  
Finance Director

13 August 2012

## **Forward Looking Statements**

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

## GLOSSARY

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

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

For the period ended 30 June

Unaudited

		Three months ended 30 June 2012	Three months ended 30 June 2011 *Restated	Six months ended 30 June 2012	Six months ended 30 June 2011 *Restated
	Notes	US\$000	US\$000	US\$000	US\$000
<b>Continuing operations</b>					
<b>Sales revenue</b>	4	4,417	6,613	8,455	15,190
Cost of sales	5	(4,915)	(5,452)	(9,176)	(12,465)
<b>Gross (loss)/profit</b>		(498)	1,161	(721)	2,725
Pre-licence costs		(134)	(641)	(245)	(869)
E&E and other asset write offs		(136)	-	(136)	-
Administrative expenses		(1,340)	(1,550)	(2,755)	(3,001)
Foreign exchange gain		59	22	106	89
Share-based payments		(145)	(194)	(320)	(466)
Depreciation		(85)	(86)	(169)	(175)
<b>Operating loss from continuing operations</b>		(2,279)	(1,288)	(4,240)	(1,697)
Gain on disposal	7	-	-	1,023	-
Finance revenue		1	2	4	10
Finance costs		(168)	(210)	(340)	(1,032)
<b>Loss before taxation</b>		(2,446)	(1,496)	(3,553)	(2,719)
Taxation credit/(charge) for the period	11	284	(243)	-	(909)
<b>Loss for the period from continuing operations</b>		(2,162)	(1,739)	(3,553)	(3,628)
<b>Discontinued operations</b>					
Loss for the period from discontinued operations	6	-	(4,636)	-	(5,212)
<b>Loss for the period</b>		(2,162)	(6,375)	(3,553)	(8,840)
<b>Loss per ordinary share (EPS)</b>					
<i>Loss on continuing operations</i>					
Basic and diluted EPS (US\$)		(0.01)	(0.01)	(0.02)	(0.02)
<i>Loss for the period</i>					
Basic and diluted EPS (US\$)		(0.01)	(0.04)	(0.02)	(0.05)

\* Restated for discontinued operations – see note 6

**Total Statement of Comprehensive Income**

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

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

		30 June 2012 US\$000	31 March 2012 US\$000	31 Dec 2011 US\$000	30 June 2011 US\$000
	Note	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)
<b>Non-current assets</b>					
Exploration & evaluation assets	7	67,114	66,442	69,083	64,967
Property, plant and equipment	8	13,945	16,496	18,719	623
Financial assets		-	274	394	677
Other receivables		2,535	3,377	3,613	-
		<u>83,594</u>	<u>86,589</u>	<u>91,809</u>	<u>66,267</u>
<b>Current assets</b>					
Inventories		1,802	1,672	1,572	1,622
Trade and other receivables		10,576	15,521	9,338	3,743
Financial assets		1,410	669	647	537
Cash and cash equivalents		23,277	16,640	19,946	15,395
		<u>37,065</u>	<u>34,502</u>	<u>31,503</u>	<u>21,297</u>
Assets held for sale	6	-	-	-	39,289
<b>TOTAL ASSETS</b>		<u>120,659</u>	<u>121,091</u>	<u>123,312</u>	<u>126,853</u>
<b>Current liabilities</b>					
Trade and other payables		(11,082)	(9,274)	(10,267)	(4,251)
Income taxation payable		-	(284)	(302)	-
<b>Non-current liabilities</b>					
Provisions		(2,040)	(2,035)	(2,029)	-
Deferred income tax liabilities		-	-	-	-
Liabilities associated with assets held for sale	6	-	-	-	(5,846)
<b>TOTAL LIABILITIES</b>		<u>(13,122)</u>	<u>(11,593)</u>	<u>(12,598)</u>	<u>(10,097)</u>
<b>NET ASSETS</b>		<u>107,537</u>	<u>109,498</u>	<u>110,714</u>	<u>116,756</u>
Share capital	9	207,758	207,702	207,702	207,702
Other reserves		19,795	19,650	19,475	18,954
Accumulated deficit		(120,016)	(117,854)	(116,463)	(109,900)
<b>TOTAL EQUITY</b>		<u>107,537</u>	<u>109,498</u>	<u>110,714</u>	<u>116,756</u>

**Serica Energy plc**  
**Statement of Changes in Equity**

For the year ended 31 December 2011 and period ended 30 June 2012

**Group**

	Share capital US\$000	Other reserves US\$000	Deficit US\$000	Total US\$000
At 1 January 2011 (audited)	207,657	18,428	(96,093)	129,992
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 (audited)	207,702	19,475	(116,463)	110,714
Loss for the period	-	-	(1,391)	(1,391)
Total comprehensive income	-	-	(1,391)	(1,391)
Share-based payments	-	175	-	175
At 31 March 2012 (unaudited)	207,702	19,650	(117,854)	109,498
Loss for the period	-	-	(2,162)	(2,162)
Total comprehensive income	-	-	(2,162)	(2,162)
Issue of shares	56	-	-	56
Share-based payments	-	145	-	145
At 30 June 2012 (unaudited)	207,758	19,795	(120,016)	107,537

**Serica Energy plc**  
**Consolidated Cash Flow Statement**  
For the period ended 30 June

Unaudited	Three months ended 30 June 2012 US\$000	Three months ended 30 June 2011 *Restated US\$000	Six months ended 30 June 2012 US\$000	Six months ended 30 June 2011 *Restated US\$000
Cash flows from operating activities:				
Loss for the period	(2,162)	(6,375)	(3,553)	(8,840)
Adjustments to reconcile loss for the period to net cash flow from operating activities				
Taxation	(284)	243	-	909
Net finance costs	165	208	336	1,022
Gain on disposal	-	-	1,023	-
Depreciation	85	86	169	175
Depletion and amortisation	3,038	3,777	5,691	9,063
Asset write offs	136	170	136	509
Loss on re-measurement to fair value	-	3,720	-	3,720
Share-based payments	145	224	320	526
Decrease/(increase) in receivables	280	2,545	(2,650)	4,222
(Increase)/decrease in inventories	(130)	77	(230)	22
Increase/(decrease) in payables	1,807	(5,949)	815	(6,224)
Cash generated from operations	3,080	(1,274)	2,057	5,104
Taxation paid	-	(3,134)	(302)	(3,134)
<b>Net cash flow from operations</b>	<b>3,080</b>	<b>(4,408)</b>	<b>1,755</b>	<b>1,970</b>
Cash flows from investing activities:				
Purchase of property, plant & equipment	(572)	(616)	(1,086)	(839)
Purchase of E&E assets	(799)	(941)	(2,135)	(3,085)
Proceeds from disposals	5,000	-	5,000	-
Interest received	1	2	4	10
<b>Net cash inflow/(outflow) from investing</b>	<b>3,630</b>	<b>(1,555)</b>	<b>1,783</b>	<b>(3,914)</b>
Cash proceeds from financing activities:				
Repayments of loans and borrowings	-	-	-	(11,800)
Proceeds on exercise of options	56	-	56	45
Finance costs paid	(163)	(201)	(329)	(464)
<b>Net cash from financing activities</b>	<b>(107)</b>	<b>(201)</b>	<b>(273)</b>	<b>(12,219)</b>
<b>Cash and cash equivalents</b>				
Net increase/(decrease) in period	6,603	(6,164)	3,265	(14,163)
Effect of exchange rates on cash and cash	34	(2)	66	36
Amount at start of period	16,640	22,041	19,946	30,002
Amount at end of period	<b>23,277</b>	<b>15,875</b>	<b>23,277</b>	<b>15,875</b>

\*Restated for discontinued operations – see note 6

## **Serica Energy plc**

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

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

The interim condensed consolidated financial statements of the Group for the three months ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on 10 August 2012.

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

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

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

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 Interim Financial Reporting.

These unaudited interim consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards following the same accounting policies and methods of computation as the consolidated financial statements for the year ended 31 December 2011. These unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the consolidated financial statements and the notes thereto in the Serica Energy plc annual report for the year ended 31 December 2011.

##### **Going Concern**

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review in the Q2 2012 Management's Discussion and Analysis. As at 30 June 2012, the Group had US\$23.3 million of net cash.

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

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the interim condensed financial statements.

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

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

##### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Serica Holdings UK Limited, Serica Energy Holdings B.V., Serica Energy Corporation, Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited, Serica Energia Iberica S.L., Serica Energy (UK)

Limited, PDA Lematang Limited, APD (Asahan) Limited, APD (Biliton) Limited, Serica Glagah Kambuna B.V., Serica Foun Draa B.V., Serica Sidi Moussa B.V., Serica Energy Rockall B.V., Serica Energy Slyne B.V. and Serica Energy Namibia B.V.. Together, these comprise the "Group".

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

### 3. Segmental Information

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

The following tables present profit information on the Group's geographical segments for the six months ended 30 June 2012 and 2011 and certain asset and liability information as at 30 June 2012. 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.

Six months ended 30 June 2012 (unaudited)

	UK & Ireland US\$000	Africa US\$000	Kambuna US\$000	Total US\$000
<i>Continuing</i>				
Revenue	-	-	8,455	<u>8,455</u>
(Loss)/profit for the period	(3,790)	992	(755)	<u>(3,553)</u>
Other segmental information				
Segmental assets	89,300	1,382	24,977	115,659
Unallocated assets				<u>5,000</u>
Total assets				<u>120,659</u>
Segmental liabilities	(5,800)	(2,075)	(5,247)	(13,122)
Unallocated liabilities				<u>-</u>
Total liabilities				<u>(13,122)</u>

Six months ended 30 June 2011 (unaudited)

	UK & Ireland US\$000	Africa US\$000	Kambuna US\$000	Total US\$000	*Restated Discontinued US\$000
<i>Continuing</i>					
Revenue	-	-	15,190	<u>15,190</u>	-
(Loss)/profit for the period	(4,787)	(596)	1,755	<u>(3,628)</u>	<u>(5,212)</u>

\*Restated for discontinued operations – see note 6

#### 4. Sales Revenue

Six months ended 30 June:	2012 US\$000	2011 US\$000
Gas sales	4,568	8,854
Condensate sales	3,887	6,336
	<u>8,455</u>	<u>15,190</u>

#### 5. Cost of sales

Six months ended 30 June:	2012 US\$000	2011 US\$000
Operating costs	3,732	3,297
Depletion	5,691	9,063
Movement in inventories of oil	(247)	105
	<u>9,176</u>	<u>12,465</u>

## 6. 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 been sold. The directors concluded that as at 31 December 2011, 31 March 2012 and 30 June 2012, 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.

The results of the discontinued operations are presented below:

Unaudited	Three months ended 30 June 2012 US\$000	Three months ended 30 June 2011 US\$000	Six months ended 30 June 2012 US\$000	Six months ended 30 June 2011 US\$000
		*Restated		*Restated
Expenses:				
Pre-licence costs	-	(133)	-	(143)
E&E and other asset write offs	-	(170)	-	(509)
Administrative expenses	-	(220)	-	(418)
Foreign exchange gain	-	-	-	1
Share based payments	-	(30)	-	(60)
<b>Operating loss</b>	-	(553)	-	(1,129)
Other costs	-	(363)	-	(363)
Loss recognised on remeasurement to fair value	-	(3,720)	-	(3,720)
Finance revenue	-	-	-	-
Finance costs	-	-	-	-
<b>Loss before taxation</b>	-	(4,636)	-	(5,212)
Taxation charge for the period	-	-	-	-
<b>Loss for the period</b>	-	(4,636)	-	(5,212)
<b>Loss per ordinary share (EPS)</b>	US\$	US\$	US\$	US\$
Basic and diluted EPS on result in period	-	(0.03)	-	(0.03)

\*Restated for discontinued operations

Asset write offs in Q1 and Q2 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 June 2011) after deducting booked asset costs and other transaction costs and fees.

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

Six months ended 30 June:	2012 US\$000	2011 US\$000
Operating cash outflows	-	(3,027)
Investing cash outflows	-	(892)
Financing cash outflows (1)	-	-
Net cash outflow	-	(3,919)

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

Balance Sheet as at 30 June 2011 – ‘Assets held for sale and associated liabilities’

The assets and liabilities recorded as at 30 June 2011 in respect of all South East Asia interests were classified as part of a disposal group held for sale. These amounts stated in the balance sheet as at 30 June 2011 were written down to the estimated fair value less costs to sell of the disposal group. These Balance Sheet classifications as at 30 June 2011, now shown as comparatives to the 30 June 2012 Balance Sheet, have not been restated.

The financial results of the Kambuna field interest had previously been disclosed in the Q2 2011 and Q3 2011 reports to shareholders as part of discontinued operations but are now disclosed within continuing operations together with the results of the retained core business segments. The three and six month ended 30 June 2011 income and cash flow statement financial results have therefore been restated to only disclose the Indonesian exploration business disposal group as ‘discontinued’.

## 7. Exploration and Evaluation Assets

	Total US\$000
Net book amount: At 1 January 2012 (audited)	69,083
Additions	2,135
Asset write-offs	(127)
Disposals	(3,977)
At 30 June 2012 (unaudited)	<u>67,114</u>

Disposals in E&E assets arose in the first quarter from the farm-out of an interest in the Company's Namibian licence to BP announced in March 2012. Receipt of the aggregate US\$5.0 million in respect of back cost contributions occurred on completion of the farm-out transaction in June following the consent of the Ministry of Mines and Energy in Namibia.

The re-imburement due for the past Namibia costs capitalised as E&E assets is treated as a reduction from the book cost of the asset and noted above.

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 costs incurred that had been expensed as pre-licence costs in previous periods.

## 8. Property Plant and Equipment

	Oil and gas properties US\$000	Computer / IT equipment US\$000	Fixtures, fittings and equipment US\$000	Total US\$000
Cost:				
At 1 January 2012 (audited)	62,598	189	901	63,688
Additions	1,086	-	-	1,086
At 30 June 2012 (unaudited)	<u>63,684</u>	<u>189</u>	<u>901</u>	<u>64,774</u>
Depreciation and depletion:				
At 1 January 2012 (audited)	44,329	149	491	44,969
Charge for the period	5,691	16	153	5,860
At 30 June 2012 (unaudited)	<u>50,020</u>	<u>165</u>	<u>644</u>	<u>50,829</u>
Net book amount At 30 June 2012	<u>13,664</u>	<u>24</u>	<u>257</u>	<u>13,945</u>
At 1 January 2012 (audited)	<u>18,269</u>	<u>40</u>	<u>410</u>	<u>18,719</u>

## 9. Equity Share Capital

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

The share capital of the Company comprises one "A" share of £50,000 and 176,770,310 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.

<b>Allotted, issued and Group</b>	Number	Share capital US\$000	Share premium US\$000	Total Share capital US\$000
At 1 January 2011	176,570,311	17,747	189,910	207,657
Options exercised (i)	90,000	9	36	45
At 31 December 2011 and 31 March 2012	176,660,311	17,756	189,946	207,702
Options exercised (ii)	110,000	11	45	56
At 30 June 2012	176,770,311	17,767	189,991	207,758

- 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.

As at 10 August 2012 the issued voting share capital of the Company is 176,770,311 ordinary shares.

## 10. Share-Based Payments

### Share Option Plans

Following a reorganisation (the "Reorganisation") in 2005, the Company established an option plan (the "Serica 2005 Option Plan") to replace the Serica Energy Corporation Share Option Plan (the "Serica BVI Option Plan").

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

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

As at 30 June 2012, the Company has granted 16,532,460 options under the Serica 2005 Option Plan, 10,315,460 of which were outstanding. 6,351,690 of the 10,315,460 options outstanding at 30 June 2012 under the Serica 2005 Option Plan are exercisable only if certain performance targets being met. 1,902,500 options under the Serica 2005 Option Plan were cancelled in April 2012.

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain market conditions) to estimate the fair value of share options at the date of grant. The estimated fair value of options is amortised to expense over the options' vesting period. US\$145,000 has been charged to the income statement in continuing operations in the three month period ended 30 June 2012 (three month period ended 30 June 2011: US\$194,000) and a similar amount credited to other reserves. US\$30,000 has been charged to the income statement in discontinued operations for the three month period ended 30 June 2011.

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, and a volatility factor of 50%.

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

<b>Serica BVI Option Plan</b>	<b>Number</b>	<b>WAEP Cdn\$</b>
Outstanding at 1 January 2011	1,900,000	1.46
Expired during the year	-	-
Outstanding at 31 December 2011	<u>1,900,000</u>	<u>1.46</u>
Expired during the period	-	-
Outstanding as at 30 June 2012	<u>1,900,000</u>	<u>1.46</u>
<b>Serica 2005 Option Plan</b>		<b>£</b>
Outstanding at 1 January 2011	12,864,500	0.78
Granted during the year	450,000	0.31
Exercised during the year	(90,000)	0.32
Cancelled during the year	(3,041,500)	0.81
Outstanding at 31 December 2011	<u>10,183,000</u>	<u>0.75</u>
Granted during the period	2,144,960	0.21
Outstanding at 31 March 2012	<u>12,327,960</u>	<u>0.66</u>
Exercised during the period	(110,000)	0.32
Cancelled during the period	(1,902,500)	0.86
Outstanding at 30 June 2012	<u>10,315,460</u>	<u>0.63</u>

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.

In April 2012, 1,902,500 share options under the Serica 2005 Option Plan were cancelled.

In August 2012, 1,200,000 share options under the Serica 2005 Option plan expired.

## 11. Taxation

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

Six months ended 30 June:	2012 US\$000	2011 US\$000
Current income tax charge	-	2,248
Deferred income tax credit	-	(1,339)
Total tax charge	-	909

## 12. Publication of Non-Statutory Accounts

The financial information contained in this interim statement does not constitute statutory accounts as defined in the Companies Act 2006. The financial information for the full preceding year is based on the statutory accounts for the financial year ended 31 December 2011. Those accounts, upon which the auditors issued an unqualified opinion, are available at the Company's registered office at 52 George Street, London W1U 7EA and on its website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

This interim statement will be made available at the Company's registered office at 52 George Street, London W1U 7EA and on its website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).