Serica Energy plc

("Serica" or the "Company")

2009 Annual Report to Shareholders

London, 16 March 2010 – Serica Energy plc (TSX Venture & AIM: SQZ) announces its financial results for the three months and twelve months ending 31 December 2009. The results and associated Management Discussion and Analysis are included below and copies are available at www.serica-energy.com and www.sedar.com.

2009 Highlights

2009 was a good year for Serica, achieved against a very difficult economic background. Careful management of our asset portfolio and a number of successful transactions towards the end of the year enables the Company to start 2010 in a strong financial position with the Company's first field, Kambuna, on production and exposure to several high quality exploration prospects, any one of which has the potential to add substantial value. Serica is also able to report the Company's first significant pre-tax profit at US$7.3 million for the year against a prior year loss of US$0.8 million.

Financial:

- First significant oil and gas sales revenue of US$7.6 million
- First significant pre-tax profit of US$7.3 million
- Profit of US$26.9 million realised from disposal of assets in South East Asia
- US$100 million 3-year senior secured revolving credit facility completed
- Further positive contribution from prudent exploration risk management:
  - Large part of 2009 drilling costs (Vietnam, Ireland) paid by third parties
  - 2010 exploration cost exposure reduced by South East Asia disposal

Post balance sheet events:

- Company in a net cash position post receipt of US$105 million from assets sale
- Farm out of North Sea Oates prospect – Serica retaining 50% interest with no exposure to well cost
- Farm out of East Irish Sea Conan prospect – Serica retaining a 65% interest with exposure to 30% of well cost

Forward programme for 2010:

- Kambuna production expected to average 3,000 boepd net in 2010
- Columbus front end design for development via the Lomond field
- 2010 exploration drilling targeting potential for 160 mmboe net to Serica:
  - 93 mmboe in the UK offshore
  - 67 mmboe in Indonesia
- Five well exploration programme:
  - Conan in the UK East Irish Sea, spudding April / May 2010 (Serica operated)
  - Oates in the UK Central North Sea, spudding June / July 2010
  - Dambus and Marindan (offshore) and one additional well onshore Kutai PSC (Serica operated)
- Focusing resources on existing areas and new areas outside South East Asia

Paul Ellis, Chief Executive of Serica commented:

"2009 was a significant year for Serica with key milestones achieved. Kambuna came on-stream, the culmination of four years of hard work, and the Company continued to actively manage its portfolio by mitigating risks, gaining new acreage and monetising assets when we believed it was the best time to do so.

Serica is in excellent shape going into 2010. The Company has shifted its strategic focus towards greater value, has a strong balance sheet and is about to start an exploration programme with the potential to deliver significant upside to shareholders.

We have high expectations for the year ahead and believe that this will be an exciting year for the Company."

16 March 2010

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

Forward Looking Statements

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

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

CHAIRMAN'S REPORT

Dear Shareholder

I am delighted to be able to report that 2009 was a good year for Serica, achieved against a very difficult economic background. Careful management of our asset portfolio and a number of successful transactions towards the end of the year enables us to start 2010 in a strong financial position with our first field on production and exposure to several high quality exploration prospects, any one of which has the potential to add substantial value. Serica is also able to report the Company's first significant pre-tax profit at US$7.3 million for the year against a prior year loss of US$0.8 million.

This positive outcome is the result of applying strict financial controls during an extremely difficult year for industry in general, caused largely by the recession and the continuing financial fall-out from the banking crisis. It has been our policy to focus the Company's skills towards identifying exploration prospects in which we can retain high percentage interests and operational control but which are also sufficiently material that we can reduce or eliminate our costs and risk through farm-out to industry partners.

In following this strategy to control exploration costs the Company has been extremely successful. In 2009 we drilled the Bandon, Chablis and Tuong Vi wells in Ireland, the UK and Vietnam respectively with a large part of our costs paid by third parties. The first two of these encountered hydrocarbons, albeit non-commercial but the result at Bandon holds out promise for this very underexplored basin offshore the west coast of Ireland in which we have now demonstrated the presence of oil. We plan to drill further wells offshore Ireland in 2011.

For 2010, our drilling programme involves five wells with Serica holding large percentage interests in each. All of these prospects were identified by the Company. In two of them, the Conan and Oates wells, our costs, and thus the downside risks, are fully or partially met by industry partners, a further demonstration of our strategy to control downside exposure. Four of the wells to be drilled in this programme will be drilled by the Company as operator, thereby enabling us to retain a high degree of control of timing in addition to the risk and cost savings resulting from farm-out.

A further strand of our policy is to realise the value of assets in which we see limited opportunity for growth and to reinvest the proceeds into projects which we believe have the potential for greater investment returns and which better match our skill set. The Kambuna field in Indonesia fits into this category. In 2008 we sold a 15% interest in the field, realising a profit of US$36.6 million. In 2009, we realised a further profit from the sale of a 25% interest. This latter sale was made together with part of our Kutai exploration block plus our full interest in Vietnam, where disappointing drilling results reduced our perception of value and resulted in a strategic decision to withdraw. The sale of these properties contributed a profit of US$26.9 million net of associated carrying costs. After these sales we still have a 25% holding in the Kambuna field which started production in August 2009 and is expected to yield, net to our interest, some 3,000 boepd of gas and condensate production in 2010.

This approach to risk and value is the basis by which the Company has been able to maintain a robust financial position in difficult financial markets without recourse to shareholders to meet drilling costs. At the end of 2009 cash balances stood at US$18.4 million with debt standing at US$71 million. In January 2010, cash balances increased following the receipt of US$100 million outstanding from the partial sale of the Kambuna and Kutai interests and the disposal of our stake in Vietnam. As a result the Company is now in a net cash position.

The prudent management of our cash resources, combined with limiting our exposure to unfunded drilling commitments, has given us the option now to seek new opportunities whilst we explore the material potential in our existing portfolio. It places us in a good position to exploit the acquisition market should assets complementary to our business become available. We intend to pursue such opportunities if we believe real value can be added.

In summary, I and my fellow directors, have high expectations for 2010. The Company has positioned itself well for the recovery in the markets, production levels at Kambuna are expected to continue to improve and we continue to work on the development of the Columbus field. Successful drilling results from any of the wells in our near term programme would have a very large and positive impact on our underlying asset value. This position is due in no small part to the hard work and commitment of our executive and staff who have demonstrated their exceptional skills in a very difficult market. Our thanks go to them.

Tony Craven Walker
Chairman

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial and operational results of Serica Energy plc and its subsidiaries (the "Group") should be read in conjunction with Serica's consolidated financial statements for the year ended 31 December 2009.

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

CHIEF EXECUTIVE OFFICER'S REPORT – 2009

2009 was a pivotal year for Serica. In August we brought the Kambuna field onstream and with it our first production revenues. With the field then close to its maximum value we monetised part of our interest through the sale to KrisEnergy announced in December. During the year we drilled two offshore wells in new areas, one in Vietnam and one in Ireland. Although no commercial discovery resulted, both wells were drilled at almost no cost to the Company. As planned, we added further offshore exploration areas to our portfolio in the UK, Ireland and Morocco and, by the end of the year, had negotiated farm-outs for the upcoming Conan and Oates wells in the UK and a contribution towards our drilling costs in Kutai offshore Indonesia as a result of the transaction with KrisEnergy.

In Indonesia, achieving first production at the Kambuna field in August 2009 was the successful culmination of four years of hard work in drilling and development and of considerable patience in putting in place the commercial arrangements necessary to bring the gas and condensate to market. The condensate is a light oil and fetches a price very close to that of Brent Crude Oil. With life of field sales contracts in place and with good realised oil prices (Brent Crude Price +/- US$1.00 on average), revenues from the field are growing as production ramps up.

It is encouraging to note that condensate yields so far remain high, at around 100 barrels per million standard cubic feet of gas. At the initial target gas rate of 40 million standard cubic feet of gas per day ("mmscfd") the field will produce around 4,000 barrels per day of condensate ("bpd"). When the permanent onshore gas processing facilities are completed this summer, it will enable production rates of 50 mmscfd and 5,000 bpd to be achieved.

In 2006, when we entered into the Production Sharing Contract for Block 06/94 in Vietnam, we saw it as the first step in an expansion of our activities in South East Asia to areas outside of Indonesia. However, we were unable to find attractive follow-on projects. The Tuong Vi exploration well in 2009 was unsuccessful although Serica's 33% share of the costs was carried by a farminee. We ultimately decided to exit Vietnam and in December announced the sale of our interest in Block 06/94 to KrisEnergy together with half of our interest in the Kambuna TAC and part of our interest in the Kutai PSC. The outstanding US$100 million balance of the total cash proceeds of US$105 million was received in January and the transaction also delivers a significant reduction in Serica's 2010 exploration cost exposure.

In May we drilled the Bandon exploration well in Licence FEL 1/06 in the Slyne Basin 80 kilometres west of the Irish coast. The Sherwood Sandstone gas prospect did not materialise, but instead we discovered an oil accumulation. Samples of the oil were recovered but the oil discovery is small and non-commercial. The results of the Bandon well do not impact on the three other large gas prospects in the licence area, Boyne, Achill and Liffey, and the licence now benefits from the new oil play that we are mapping. In 2010 we intend to carry out the required site surveys for our chosen drilling locations but, due to the weather-restricted operational season of only six months (May through October), the exploration wells will be drilled in the 2011 season.

We were pleased to announce in July the award of our second Frontier Exploration Licence offshore Ireland, FEL 1/09 in the Irish sector of the deepwater Rockall Basin. This licence contains the Muckish prospect which we had identified on 3D seismic. By the end of August Serica had completed a new “long-offset” seismic survey over the prospect in order to evaluate the likelihood of the prospect containing hydrocarbons. Processing and interpretation of the results is in progress. The Irish Rockall Basin is a highly under-explored part of the Atlantic Margin, with only three wells having been drilled to date, and Serica is looking forward to the challenge of unlocking its potential.

In the UK we saw progress with the Columbus field development, the award of new licences and successful farm-outs negotiated for the Conan and Oates prospects.

The Columbus field will be a subsea development using wellheads and production control equipment located on the seabed. The oil and gas will be taken to an existing producing field where it will be separated and processed and transported to the east coast of the UK. In January 2009 BG Group (“BG”) drilled four deviated wells from a single drilling location lying between the Columbus and Lomond fields, the latter now operated by BG. These well locations were chosen by BG to test the most promising areas of the Palaeocene Forties Formation seismic anomaly first proven to be gas bearing by the Columbus discovery well. Of significance for further exploration of the anomaly in the area, all four of these wells encountered gas and two of the wells exhibited reservoir pressures similar to that in the Columbus field.

Serica is negotiating with BG the terms of an agreement that would see the Columbus field produced through the Lomond field facilities, lying about eight kilometres southeast of the Columbus discovery well. The agreement should enable the Columbus field to be brought onto production by early 2013. Front End Engineering Design (“FEED”) contractors have been selected and contracts are in the final stages of negotiation. In parallel with FEED, a revised Field Development Plan should be submitted to the UK government in 2010.

We were awarded UK Central North Sea Block 22/19c in June in the UK 25th Offshore Licensing Round. This block contains the Palaeocene Forties Formation Oates and Bowers prospects that exhibit a very similar seismic anomaly to that seen at Columbus, 20 kilometres to the east. Serica has agreed a farm-out with Premier Oil under the terms of which Serica has transferred a 50% interest and operatorship to Premier which will pay 100% of the costs of the Oates well. Serica will retain a 50% interest in the block and expects the well to be drilled in June 2010. Premier has estimated the mean prospective resources on the Oates prospect to be 65 million barrels of oil equivalent.

In the UK East Irish Sea, about 50 kilometres northwest of Blackpool and ten kilometres from the one trillion cubic feet North Morecambe gas field lie Serica’s Conan and Doyle gas prospects. Given the proximity of established infrastructure, even a small reserve would be commercial in these shallow waters, but the Conan prospect is of potentially significant size. In January 2010 Serica announced a farm-in agreement with Agora Oil and Gas (UK) AS, under which Agora will contribute 70% of well costs to earn a 35% interest in the licence with Serica retaining a 65% interest and operatorship. The ENSCO 80 jack-up rig has been contracted and will be mobilised from the North Sea to the East Irish Sea to drill the Conan exploration well in the second quarter of 2010.

In Indonesia we have been making preparations to drill two offshore wells in the Kutai PSC, the Dambus and Marindan prospects. These wells will be drilled back-to-back and we expect the rig to arrive in the third quarter of 2010. Dambus is a particularly attractive prospect, with mean prospective resources of 200 million barrels of oil equivalent. Serica is the PSC operator and holds a 30% interest (post completion of disposals).

With the completion of the KrisEnergy transaction, Serica can focus more of its resources on existing and new areas outside South East Asia, where fiscal terms are more favourable and prospectivity may be more attractive. As part of this strategic move, in June we announced that we had been awarded interests in two large licences in the Atlantic Margin offshore Morocco, Foum Draa and Sidi Moussa. A 3D seismic survey already covers a large part of the acreage and work is in progress to reprocess and interpret this data. Already the prospectivity of the blocks looks encouraging, with significant structuring caused by salt diapirism and evidence that reservoir sand bodies should be present.

In November we entered into a new US$100 million senior secured revolving credit facility to replace the previous facility. The term of the new facility is three years and will support the financing of the Kambuna field, the Columbus field and other corporate purposes.

2009 was a year in which we laid the foundations for an exciting future, with the start of production revenues, a new debt facility, the awards of offshore licences with significant potential, the protection of shareholders' funds through farm-outs and the forthcoming exploration drilling programme at home and abroad. Our staff have continued to develop new opportunities for the Company and we now look forward to seeing the product of their innovation and technical skills through a successful exploration year for Serica in 2010.

Paul Ellis
Chief Executive Officer

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS – SOUTH EAST ASIA

In South East Asia, Serica held interests in Indonesia and Vietnam during 2009.

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

Block(s)	**Description**	**Role**	**% at**	**Location**
			31/12/09	
Indonesia				
Glagah Kambuna TAC	Kambuna development	Partner	25% (1)	Offshore North Sumatra
Kutai PSC	Exploration	Operator	30% (2)	Kutai basin
East Seruway PSC	Exploration	Operator	100%	Offshore North Sumatra
Vietnam				
Block 06/94	Exploration	Partner	0%(3)	Nam Con Son Basin

Notes:

(1) Interest shown after disposal of a 25% interest to KrisEnergy.
(2) On 31 December 2009 the Company had an effective working interest of 30% following the disposal of a 23.4% interest to Salamander Energy in 2008 and a further 24.6% interest to KrisEnergy in 2009. These transfers are subject to governmental approvals.
(3) On 31 December 2009 the Company no longer held any interests in Vietnam having disposed of its 33.3% interest in Block 06/94 to KrisEnergy.

SOUTH EAST ASIA ASSET DISPOSAL

In December 2009 the Company disposed of a package of assets in Indonesia and Vietnam to KrisEnergy Limited (KrisEnergy).

The assets sold comprised a 25% interest in the Glagah Kambuna TAC, in Indonesia, a 24.6% interest in the Kutai PSC in Indonesia and Serica's entire 33.33% interest in the Block 06/94 PSC in Vietnam. Following this sale, Serica's interests in Indonesia comprise a 25% interest in the Glagah Kambuna TAC including the Kambuna field, a 100% interest in the East Seruway PSC and a 30% interest in the Kutai PSC. The Company no longer holds any interests in Vietnam.

Indonesia

Glagah Kambuna TAC

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

The major achievement of first production from the Kambuna field occurred in Q3 2009. Following the mechanical completion and commissioning of all facilities, initial production started on 5 August, with gas and condensate being delivered to the onshore receiving facilities at Pangkalan Brandan, north Sumatra. Commercial sales began on 11 August, with gas being introduced to the pipeline system for transportation to the Belawan Power Plant. This event provided the Company with its first significant production revenue.

Shortly after gas sales commenced, production from Kambuna was suspended at the request of the then sole buyer, the State electricity generator PLN, so that it could carry out repairs to its gas turbines. After a six week shutdown, production from the field restarted on 7 November.

The gas sales contract with PLN provides for an average contract quantity of 35 mmscfd for the first twelve months and it has already been demonstrated that rates in excess of this can be delivered through the installed, temporary, processing facilities. Following the unplanned shut-down, it is expected that in 2010 PLN will nominate larger quantities of gas in order to reduce its potential annual take or pay liability.

Due to operational difficulties experienced by PLN, field production was lower than planned and gross sales for 2009 were 1,654 million standard cubic feet of gas and 130,000 barrels of oil.

Gas sales to the second buyer, Pertiwi Nusantara Resources ("Pertiwi") are contracted to commence in the first quarter 2010 at a rate of 12 mmscfd. Additionally a contract has been agreed with a division of Pertamina to extract LPG from the sales gas stream, which would require a boost in production of around 10% to maintain the contracted deliveries to the other customers. However, until the permanent onshore processing facility is completed in 2Q 2010, the maximum total gas sales rate will be approximately 40 mmscfd, with about 4,000 barrels of condensate per day.

Once the permanent facilities are commissioned, total sales gas rates of approximately 50 mmscfd should be achievable. The buyers may nominate quantities in excess of the contract rates in order to make up for any shortfall. However, under the Take or Pay provisions of the gas sales contracts, at the end of each 12 month sales period the buyers are required to pay for at least 90% of any gas contracted but not taken.

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

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

A reserves report on the Kambuna field carried out by consultants RPS Energy estimates that at 31 December 2009 the gross Proved plus Probable Reserves of the field are 131 bcf of sales gas and 11.4 mm bbl of condensate, a total of 38.7 mm boe.

Kutai PSC

Serica is the operator of the Kutai Production Sharing Contract ("PSC") and currently holds a 30% interest (subject to certain governmental approvals and consents). The PSC is divided into five blocks located in the prolific Mahakam River delta both onshore and offshore East Kalimantan, adjacent to several giant fields, including Tunu (1,600 million boe), Attaka (800 million boe) and Peciko (>1,000 million boe).

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

East Seruway PSC

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

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

Vietnam

Block 06/94 PSC

During 2009 Serica held a 33.33% interest in the Block 06/94 PSC, which is operated by Pearl Energy and lies in the Nam Con Son Basin about 350 kilometres offshore South Vietnam.

The Tuong Vi exploration well 06/94-TV-1X, in the south-western part of the block, was spudded in June 2009, targeting both oil and gas prospects. The primary target of the well was the oil potential of the Mio-Oligocene Dua and Cau Formation sandstones. The well reached a target depth of 2,700 metres and encountered good quality sands in the objective section. However no commercial volumes of hydrocarbons were found and the well was plugged and abandoned.

Under the terms of a farm-out agreement reached in March 2009 with Australian Worldwide Exploration ("AWE") Serica's share of the costs of the Tuong Vi well was carried by AWE. In August 2009, following the drilling of the Tuong Vi exploration well, Serica and AWE agreed to terminate the farm-out agreement and Serica retained its original 33.33% interest in the 06/94 PSC.

Recent activity in the Block 06/94 has included the acquisition of 600 square kilometres of 3D seismic data in an area on trend with the discovery announced by Premier Oil in the adjoining Block 07/03. However, following a strategic review, the Company disposed of its entire interest in Block 06/94 to KrisEnergy as part of a larger sale of assets.

REVIEW OF OPERATIONS - WESTERN EUROPE AND NORTH AFRICA

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

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

Block(s)	**Description**	**Role**	**% at**	**Location**
			31/12/09	
UK				
22/19c	Exploration	Operator (1)	100% (1)	Central North Sea
23/16f	Columbus field	Operator	50%	Central North Sea
23/16g	Exploration	Operator	50%	Central North Sea
48/16b	Chablis appraisal	Operator	0%	Southern Gas basin
48/17d	Chablis appraisal	Operator	65%	Southern Gas basin
54/1b	Oak discovery	Operator	0%	Southern Gas basin
113/26b	Exploration	Operator	100% (2)	East Irish Sea
113/27c	Exploration	Operator	100% (2)	East Irish Sea
23/16g	Exploration	Operator	50%	Central North Sea
Ireland				
27/4	Exploration	Operator	50%	Slyne Basin
27/5 (part)	Exploration	Operator	50%	Slyne Basin
27/9	Exploration	Operator	50%	Slyne Basin
Morocco				
Foum Draa	Exploration	Non-operator	25%	Agadir Basin
Sidi Moussa	Exploration	Non-operator	25%	Agadir Basin
Spain				
Abiego	Exploration	Operator	75%	Pyrenees/Ebro Basin
Barbastro	Exploration	Operator	75%	Pyrenees/Ebro Basin
Binéfar	Exploration	Operator	75%	Pyrenees/Ebro Basin
Peraltilla	Exploration	Operator	75%	Pyrenees/Ebro Basin

Notes:
(1) Interest now 50% following transfer of 50% interest and operatorship to Premier Oil plc
(2) Interest now 65% following transfer of 35% interest to Agora Oil and Gas (UK) AS

United Kingdom

Columbus Field Area - Blocks 23/16f & 23/16g – Central North Sea

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

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

In 2008, Serica submitted a draft Field Development Programme ("FDP") for the Columbus field to the UK government. This FDP envisaged offtake via a subsea tie-back to the BP operated facilities of the Eastern Trough Area Project ("ETAP").

However, in the first quarter of 2009, in the adjacent Block 23/21, Lomond field operator BG Group ("BG") completed drilling a well about three kilometres south of the 23/16f-11 Columbus discovery well. BG well 23/21-7 comprised a total of four penetrations of Forties Formation reservoirs and the results have improved our knowledge of the distribution of Forties sand channels in the area. Discussions with the UK Department of Energy and Climate Change ("DECC"), BG and another field operator are in progress to determine how best to commercialise the Columbus field and other gas accumulations near to the Lomond field. It is expected that a revised Field Development Programme for Columbus will be submitted to the UK government during 2010.

Independent consultants Netherland, Sewell & Associates have carried out a reserves report on the Columbus field for the end of 2009. This report estimates that the gross Proved plus Probable Reserves of the field are 77.4 bcf of sales gas and 4.8 mm bbl of condensate, a total of 17.7 mm boe. Serica holds a 50% interest in the Columbus field reserves.

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

<u>Chablis Area – Southern North Sea</u>

The Chablis Area comprises part-Blocks 48/16a and 48/16b containing the Chablis discovery and Block 48/17d lying immediately east of Block 48/16b.

Serica completed drilling the 48/16b-3z appraisal well to the Chablis discovery in January 2009, to a total depth of 8,136 ft TVDSS. Although the well encountered gas-bearing Rotliegendes Leman sands of good reservoir quality, the gas bearing interval was thin and the well was plugged and abandoned. The commercial potential of the Chablis accumulation and the remaining adjacent prospects is still uncertain and no reserves can be attributed to the area at this time.

Due to the very high annual licence rental fee for Block 48/16b, in September 2009 the Company relinquished its interests in Blocks 48/16a and 48/16b in favour of Hansa Hydrocarbons, which had farmed into Serica's blocks in 2008. However Serica has retained its 65% operated interest in Block 48/17d, which contains additional gas prospects that would have incremental value if the Chablis field was eventually developed.

<u>Oak Discovery – Block 54/1b</u>

Block 54/1b covers an area of 106 square kilometres in the Southern Gas Basin. Due to the high $C0_2$ concentration of the discovered gas, rendering the accumulation uneconomic to develop, Serica relinquished its interest in the Block in 2009.

<u>East Irish Sea - Blocks 113/26b and 113/27c</u>

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

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

Any discovery here is likely to be economically attractive. As the prospect lies in shallow water and is close to existing infrastructure, being adjacent to the producing Millom gas field and to the recent Rhyl gas discovery, a discovery at Conan could be developed relatively quickly and cheaply.

Recent technical studies have increased confidence in the Conan prospect and a site survey was acquired in 2009 in preparation for drilling in 2010.

In January 2010 Serica reached agreement with Agora Oil & Gas (UK) AS ("Agora") for the farm-out of the blocks. An exploration well on the Conan prospect, 70% funded by Agora under the term of the farm-out agreement, is planned to be drilled in the second quarter of 2010 to a depth of approximately 5,000 feet. Serica will retain a 65% interest and operatorship of the blocks.

Serica has secured the use of the Ensco 80 jack-up drilling rig to drill the Conan exploration well and drilling is expected to commence in May.

Block 22/19c

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

Block 22/19c is located approximately 20 kilometres to the west of Serica's Columbus field and contains two Palaeocene Forties Formation prospects known as Oates and Bowers.

The Oates prospect is a large stratigraphic trap identified on 3D seismic data and is similar in nature to a number of other nearby Forties sand fields such as Huntington, Montrose and Columbus. It is considered low risk and exhibits a well-defined amplitude response on the 3D seismic data similar to that seen in the Columbus field, in which the Company has drilled three successful wells. The prospect lies at a depth of approximately 2,900 metres below sea level and has estimated prospective resources of 180 billion standard cubic feet of gas or 60 million barrels of oil, depending upon whether oil or gas is found.

In January 2010 Serica reached agreement with Premier Oil plc ("Premier") for the farm-out of Block 22/19c. An exploration well on the Oates prospect, funded by Premier, is planned to be drilled in the middle of 2010 to a depth of approximately 10,000 feet. In return for this funding, Premier will earn a 50% interest in Block 22/19c and will assume the role of operator. Serica will retain a 50% interest.

Ireland

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

Serica is the operator and holds a 50% interest in Licence FEL 01/06 (Blocks 27/4, 27/5 (west) and 27/9), which covers an area of 611 square kilometres in the Slyne Basin off the west coast of Ireland and lies about 40 kilometres south of the Corrib gas field. Ireland has immediate and long-term needs for local gas supplies as it currently imports the bulk of its gas needs. Any sizeable discovery in the blocks would be a significant and welcome addition to Ireland's energy supplies.

Under the terms of a farm-out agreement RWE Dea AG contributed the bulk of the cost of drilling the first exploration well, 27/4-1 on the Bandon prospect, which was spudded on 11 May with the Ocean Guardian semisubmersible drilling rig. It drilled to a total depth of 6,233 feet through the Jurassic and Permo-Triassic intervals, encountering an oil accumulation. A sidetrack was drilled to acquire additional data and samples and drilling operations were completed in June 2009.

The oil accumulation discovered is unlikely to be commercial in isolation and the discovery of oil rather than gas was unexpected. Consequently Serica is re-evaluating the area, using the new data from the well, to determine the potential of oil prospects now being identified in licence FEL 1/06 and also to confirm the potential of the remaining gas prospects.

Rockall Basin

In July 2009 the Company announced that it had been awarded Frontier Exploration Licence FEL 1/09 covering Blocks 5/17, 5/18, 5/22, 5/23, 5/27 and 5/28 in the northeastern part of the Rockall Basin off the west coast of Ireland. The six blocks cover a total area of 993 square kilometres. Serica is the licence operator and holds a 100% working interest.

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

In August, Serica acquired several new 2D long-offset seismic lines across the Muckish structure, a large exploration prospect already identified from existing 3D seismic data, in order to evaluate its potential to contain hydrocarbons. Muckish covers an area of approximately 30 square kilometers in a water depth of 1,450 metres.

Morocco

In August 2009 the Company was awarded a 25% interest in two Petroleum Agreements for the contiguous areas of Sidi Moussa and Foum Draa, offshore Morocco. The blocks together cover a total area of approximately 12,700 square kilometres in the sparsely explored Agadir Basin, about 100 kilometres south west of the city of Agadir.

Sidi Moussa and Foum Draa are covered by over 5,200 square kilometres of modern 3D seismic data and over 2,000 kilometres of 2D seismic data. A drill or drop decision is required to be made at the end of the initial phases of the Agreements after 18 months and 30 months respectively.

The Agadir Basin is geologically analogous to the oil producing salt basins of West Africa. Based on the extensive grid of existing seismic data, over 40 undrilled prospects and leads were identified in Sidi Moussa and Foum Draa by previous operators. The areas extend from the Moroccan coastline into water depths reaching a maximum of 2,000 metres. Technical studies to reprocess the extensive 3D seismic database are underway.

Spain

The Company holds a 75% interest and operatorship in the Abiego, Barbastro, Binéfar and Peraltilla Exploration Permits onshore northern Spain. The Permits cover an area of approximately 1,100 square kilometres between the Ebro Basin and the Pyrenees.

Several gas prospects have been identified by Serica however the Company recently obtained a suspension of the Permits until November 2010 and Serica is currently seeking a farm-in partner prior to making a drill or drop decision.

Forward Programme

Serica's main priority for 2009 was to achieve first production from the Kambuna field. With gas and condensate sales having commenced from the Kambuna field, the Company's attention is now on reaching the present annual contract rate of 40 mmscfd and then to achieve a higher contract rate once supporting field data has been obtained.

Over the next twelve months Serica is planning an exploration programme of wells that could be of great significance to the Company, including the Conan prospect in the East Irish Sea, the Oates prospect in UK Block 22/19c in the Central North Sea west of the Columbus field and three wells in the Kutai PSC in Indonesia. For the Columbus field, design work and submission of a revised Field Development Plan to the UK government this year should result in a project sanction decision in 4Q 2010, enabling first gas in early 2013.

GLOSSARY

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

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").

Serica generated a profit of US$5.8 million for 2009 compared to a loss of US$1.0 million for 2008.

	2009 **US$000**	2008 US$000
Sales revenue	7,643	-
Cost of sales	(6,376)	-
Gross profit	1,267	-
Expenses:		
Administrative expenses	(6,639)	(8,628)
Foreign exchange gain/(loss)	228	(370)
Pre-licence costs	(901)	(1,150)
Asset write offs	(8,590)	(24,034)
Share-based payments	(1,687)	(1,781)
Depreciation	(118)	(146)
Operating loss before net finance revenue and tax	(16,440)	(36,109)
Profit on disposal	26,864	36,620
Finance revenue	641	1,823
Finance costs	(3,754)	(3,138)
Profit/(loss) before taxation	7,311	(804)
Taxation (charge)/credit for the year	(1,531)	228
Profit/(loss) for the year from continuing operations	5,780	(576)
Discontinued operations		
Loss for the year from discontinued operations	-	(395)
Profit/(loss) for the year	5,780	(971)
Earnings/(loss) per ordinary share - EPS		
Basic and diluted EPS on profit/(loss) for the year (US$)	0.03	(0.006)
Basic and diluted EPS on profit/(loss) for the year – continuing operations (US$)	0.03	(0.003)

The Company generated its first sales from the Kambuna field in Indonesia during Q3 2009 following the start up of production on 11 August. The gas production was sold at prices averaging US$5.48 per Mscf and generated US$4.0 million of revenue. Condensate production was sold referenced to the Indonesia Attaka official monthly crude oil prices in the year and earned US$3.6 million of revenue.

Cost of sales for 2009 were driven by production from the Kambuna field and totalled US$6.4 million. The charge comprised operating costs of US$4.5 million (including applicable Early Production Facility costs) plus depletion and amortisation of US$2.2 million, partially offset by a condensate stock adjustments credit of US$0.3 million

Administrative expenses of US$6.6 million for 2009 fell from US$8.6 million for 2008 as the Company continued to manage carefully its financial resources. The decrease from 2008 included a reduction in the US$ equivalent of those general administrative costs incurred in £ sterling. Higher levels of cost were incurred on various transactions and other corporate activity in 2008.

The impact of foreign exchange is not significant in 2009 or 2008.

Pre-licence costs include direct cost and allocated general administrative costs incurred on oil and gas activities prior to the award of licences, concessions or exploration rights. During 2009 the Company was awarded two new licences in Morocco and Block 22/19c in the UK North Sea.

Asset write offs in 2009 of US$8.6 million primarily relate to the costs incurred in Q1 2009 (US$7.1 million) on the completion of the Chablis appraisal well, which spudded in 2008. Other write offs include the costs of relinquished licences and sundry items. The asset write off charge of US$24.0 million during 2008 was allocated to the Chablis (US$11.4 million), Oak (US$6.1 million), Spain (US$6.1 million) and Biliton (US$0.4 million) assets.

Share-based payment costs of US$1.7 million reflect share options granted and compare with US$1.8 million for 2008. Whilst further share options were granted in January 2009, the incremental charge generated from those options has been offset by the decline in charges for options granted in prior years.

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 December 2009 the Company disposed of a package of assets in South East Asia (comprising a 25% interest in the Kambuna TAC, a 24.6% interest in the Kutai PSC and the Company's entire 33.3% interest in the Block 06/94 PSC, Vietnam) to KrisEnergy Limited. The disposal generated a profit of US$26.9 million after deducting the relevant proportion of booked asset costs for the Kambuna, Vietnam and Kutai interests, and transaction fees. Final completion of the Kutai element of the transaction is subject to Indonesian government approval.

Finance revenue for 2009, comprising interest income of US$0.6 million for 2009, compares with US$1.8 million for 2008. The decrease from last year is due to both a reduction in average cash balances held through the respective years and reduced average interest rate yields earned in 2009.

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

The taxation charge of US$1.5 million reflects current tax liabilities of US$0.4 million arising from income in Indonesia and also includes a deferred tax charge of US$1.1 million arising from Indonesian operations. Expenditures in prior and current periods have reduced any potential current income tax expense arising for 2008 and 1H 2009 to US$nil.

The results from discontinued operations arise following the disposal of the Company's Norwegian activities which completed in Q4 2008.

The net earnings per share of US$0.03 for 2009 compare to a net loss per share of US$0.006 for 2008.

Summary of Quarterly Results

Quarter ended:	31 Mar US$000	30 Jun US$000	30 Sep US$000	31 Dec US$000
2009				
Sales revenue	-	-	4,167	3,476
(Loss)/profit for the quarter	(9,938)	(2,504)	(926)	19,148
Basic earnings per share US$	(0.06)	(0.01)	(0.01)	0.11
Diluted earnings per share US$	(0.06)	(0.01)	(0.01)	0.11
2008				
Sales revenue	-	-	-	-
(Loss)/profit for the quarter	(3,326)	(4,275)	33,516	(26,886)
Basic earnings per share US$	(0.02)	(0.02)	0.19	(0.16)
Diluted earnings per share US$	(0.02)	(0.02)	0.19	(0.16)

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

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

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

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

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

Working Capital, Liquidity and Capital Resources

Current Assets and Liabilities

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

	31 December 2009 US$000	31 December 2008 US$000
Current assets:		
Inventories	2,855	4,618
Trade and other receivables	106,381	7,069
Financial assets	1,500	-
Cash and cash equivalents	18,412	56,822
Total Current assets	129,148	68,509
Less Current liabilities:		
Trade and other payables	(9,622)	(14,599)
Financial liabilities	(46,447)	(32,105)
Net Current assets	73,079	21,805

At 31 December 2009, the Company had net current assets of US$73.1 million which comprised current assets of US$129.1 million less current liabilities of US$56.0 million, giving a significant overall increase in working capital of US$51.3 million in the year.

Inventories decreased from US$4.6 million to US$2.9 million over the year as materials were utilised and the Company also reduced its working interest in the joint venture balances held.

Trade and other receivables at 31 December 2009 totalled US$106.4 million and included US$99.7 million of outstanding consideration (including effective date adjustments) from the South East Asia asset disposals and US$2.4 million trade debtors from gas and condensate sales. Other less significant items included recoverable amounts from partners in Joint Venture operations in the UK and Indonesia, prepayments and sundry UK and Indonesian working capital balances. The amounts due from KrisEnergy Limited were received on completion of the transaction in January 2010 (US$5.0 million of the consideration was received in December 2009) and all trade debtors outstanding at Q4 2009 were received in Q1 2010. The significant increase from the 2008 year end balance of US$7.1 million was caused by the receivable arising from the disposal of assets to KrisEnergy Limited agreed in December 2009.

Financial assets represent US$1.5 million of restricted cash deposits, reclassified as a current asset during Q2 2009.

Cash and cash equivalents reduced from US$56.8 million to US$18.4 million in the year. The Company received US$40.0 million in further gross drawings on its loan facility however these cash inflows were offset by the significant capital expenditure of US$41.6 million on the Kambuna development and the completion of appraisal drilling in the UK on Chablis. Other cost was incurred on exploration work across the portfolio in South East Asia and the UK and Ireland, together with ongoing administrative costs, operational expenses and corporate activity.

Trade and other payables of US$9.6 million at 31 December 2009 chiefly include significant trade creditors and accruals from the Kambuna development and UK exploration programme. Other smaller items comprise sundry creditors and accruals for administrative expenses and other corporate costs. The decrease from December 2008 is due to a reduction in Kambuna development expenditure as the project approaches completion.

Financial liabilities comprise drawings under the senior debt facility and are disclosed net of the unamortised portion of allocated issue costs. The balance classified as short term as at 31 December 2009 represents amounts repaid in January 2010 following the receipt of asset disposal proceeds noted above.

Long-Term Assets and Liabilities

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

	31 December 2009 US$000	31 December 2008 US$000
Exploration and evaluation assets	66,030	69,711
Property, plant and equipment	53,864	68,526
Goodwill	148	295
Financial assets	-	1,500
Long-term other receivables	5,639	3,945
Financial liabilities	(24,371)	-
Deferred income tax liabilities	(1,435)	(295)

During 2009, total investments in petroleum and natural gas properties represented by exploration and evaluation assets ("E&E assets") decreased from US$69.7 million to US$66.0 million. These amounts exclude the Kambuna development and production costs which are classified as property, plant and equipment.

The net US$3.7 million decrease consists of US$22.9 million of additions, less US$7.6 million of asset write offs and US$19.0 million of disposals.

The US$22.9 million of additions were incurred on the following assets:

In South East Asia, US$1.4 million was incurred in Vietnam on a seismic survey and preparations for 2010 drilling, US$4.7 million was incurred on seismic, exploration work and G&A on the Kutai concession in Indonesia and US$0.7 million on East Seruway. The entire Vietnam E&E asset interests were disposed of in December 2009 together with a 24.6% interest in the Kutai PSC.

In the UK & Western Europe; US$7.1 million was spent on the completion of Chablis appraisal drilling in Q1 2009, US$3.0 million of expenditure was incurred in Ireland on the Slyne basin and Rockall basin interests, US$3.3 million on seismic data and other exploration work in Block 22/19c in the UK North Sea, and US$2.3 million on other exploration work, G&A and the Columbus FDP.

Property, plant and equipment comprise the net book amount of the capital expenditure on the Company's interest in the Kambuna development. During 2009, the Company's investment decreased from US$68.5 million to US$53.9 million. This US$14.6 million decrease comprises US$41.6 million of capex additions in the year less depletion charges of US$2.2 million arising from the production of gas and condensate, and the deduction in December 2009 of US$53.9 million representing the proportionate share of Kambuna book costs disposed to KrisEnergy. The property, plant and equipment also includes immaterial balances of US$0.1 million for office fixtures and fittings and computer equipment.

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

Financial assets of US$1.5 million of restricted cash deposits were classified as a current asset in Q2 2009.

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

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

The deferred income tax liability of US$1.4 million arises in respect of the Company's retained Kambuna asset interest in Indonesia.

Shareholders' Equity

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

	31 December 2009 US$000	31 December 2008 US$000
Total share capital	207,633	207,633
Other reserves	17,197	15,510
Accumulated deficit	(51,876)	(57,656)

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

Other reserves mainly include amounts credited in respect of cumulative share-based payment charges. The increase in other reserves from US$15.5 million to US$17.2 million reflects a credit to equity in respect of share-based payment charges in 2009.

Asset values and Impairment

At 31 December 2009 Serica's market capitalisation stood at US$160 million (£100 million), based upon a share price of £0.57, which was exceeded by the net asset value at that date of US$174 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. By 12 March 2010 the Company's market capitalisation had increased to US$193 million exceeding the net asset value at 31 December 2009.

Capital Resources

Available financing resources and debt facility

Serica's prime focus has been to deliver value through exploration success. To-date this has given rise to the Kambuna gas field development in Indonesia, with first production achieved in August 2009, and the Columbus gas field in the UK North Sea, for which development plans have been submitted. In Q3 2009 the Company achieved its first significant revenues from the Kambuna field, complementing its exploration activities with producing interests.

Typically exploration activities are equity financed whilst field development costs are principally debt financed. In the current business environment, access to new equity and debt remains uncertain. Consequently, the Company has given priority to the careful management of existing financial resources. The receipt of first Kambuna revenues in Q3 2009 reweights the balance from investment to income generation.

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

At 31 December 2009, the Company held cash and cash equivalents of US$18.4 million, restricted cash of US$1.5 million. In January 2010 the Company received the proceeds from the disposal of assets to Kris Energy and repaid US$47.6 million of its debt. As of 12 March 2010, the Company's debt facility was US$25 million drawn out of a total facility of US$100 million, leaving a net cash position of approximately US$40 million.

Overall, the start of revenues from Kambuna, the subsequent disposal of 25% out of its 50% Kambuna interest and the control that the Company can exert over the timing and cost of its exploration programmes both through operatorship and through farm-outs leave it well placed to manage its commitments. Serica intends to continue taking a prudent approach to financial management so as to retain the strength that it has built to-date.

Lease commitments

At 31 December 2009, Serica had no capital lease obligations. At that date, the Company had commitments to future minimum payments under operating leases in respect of rental office premises, office equipment and motor vehicles for each of the following years as follows:

	US$000
31 December 2010	148
31 December 2011	-

Capital expenditure commitments, obligations and plans

The Company's most significant planned capital expenditure commitments for 2010 are those required to fund the completion of the permanent production facilities for the Kambuna field. As at 31 December 2009, the Company's share of expected outstanding capital costs in respect of its 25% retained interest on the project totalled approximately US$6.7 million. These expected costs include amounts contracted for but not provided in 2009.

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

Year ending 31 December 2010 US$11,700,000
Year ending 31 December 2011 US$1,235,000

These obligations reflect the Company's share of the defined work programmes and were not formally contracted at 31 December 2009. The Company is not obliged to meet other joint venture partner shares of these programmes. The most significant obligations are in respect of the Kutai PSC in South East Asia and drilling is expected to commence in 2010. Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK and South East Asia.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

The Company's significant accounting policies are detailed in note 2 to the attached audited 2009 financial statements. International Financial Reporting Standards have been adopted. The costs of exploring for and developing petroleum and natural gas reserves are capitalised and the capitalisation and any write off of E&E assets, or depletion of producing assets necessarily involve certain judgments with regard to whether the asset will ultimately prove to be recoverable. Key sources of estimation uncertainty that impact the Company relate to assessment of commercial reserves and the impairment of the Company's assets. Oil and gas properties are subject to periodic review for impairment whilst goodwill is reviewed at least annually. Impairment considerations necessarily involve certain judgements as to whether E&E assets will lead to commercial discoveries and whether future field revenues will be sufficient to cover capitalised costs. Recoverable amounts can be determined based upon risked potential, or where relevant, discovered oil and gas reserves. In each case, recoverable amount calculations are based upon estimations and management assumptions about future outcomes, product prices and performance. Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment charge is required.

Financial Instruments

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

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

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

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

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

Share Options

As at 31 December 2009, the following director and employee share options were outstanding: -

	Expiry Date (i)	Number	Exercise cost Cdn$
Share options	December 2014	275,000	275,000
	January 2015	600,000	600,000
	June 2015	1,100,000	1,980,000
			Exercise cost £
	November 2010 (ii)	437,000	423,890
	August 2012	1,200,000	1,182,000
	October 2013	750,000	300,000
	January 2014	708,000	226,560
	November 2015	124,000	120,280
	January 2016	1,275,000	1,319,625
	May 2016	180,000	172,800
	June 2016	270,000	259,200
	November 2016	120,000	134,400
	January 2017	745,000	759,900
	May 2017	405,000	421,200
	March 2018	1,608,000	1,206,000
	March 2018	850,000	697,000

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

(ii) Options held under the EMI Plan.

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

Outstanding Share Capital

As at 16 March 2010, the Company had 176,518,311 ordinary shares issued and outstanding.

Business Risk and Uncertainties

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

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

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

Key Performance Indicators ("KPIs")

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

Nature and Continuance of Operations

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

The Company's financial statements have been prepared with the assumption that the Company will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. During the year ended 31 December 2009 the Company generated a profit of US$5.8 million from continuing operations and earned its first revenues from the Kambuna field following the commencement of production in August. At 31 December 2009 the Company had US$52 million of debt net of available cash and, following the post year end receipt of cash from the disposal of certain assets to KrisEnergy, by 12 March 2010 the Company had US$40 million of net cash.

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

Additional Information

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

Approved on Behalf of the Board

Paul Ellis	Christopher Hearne
Chief Executive Officer	Finance Director

16 March 2010

Forward Looking Statements

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

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

	Note	**2009 US$000**	2008 US$000
Sales revenue	4	7,643	-
Cost of sales		(6,376)	-
Gross profit		1,267	-
Administrative expenses	5	(6,639)	(8,628)
Foreign exchange gain/(loss)		228	(370)
Pre-licence costs		(901)	(1,150)
Asset write offs	14	(8,590)	(24,034)
Share-based payments	27	(1,687)	(1,781)
Depreciation	6	(118)	(146)
Operating loss before net finance revenue and tax		(16,440)	(36,109)
Profit on disposal	9	26,864	36,620
Finance revenue	10	641	1,823
Finance costs	11	(3,754)	(3,138)
Profit/(loss) before taxation		7,311	(804)
Taxation (charge)/credit for the year	12	(1,531)	228
Profit/(loss) for the year from continuing operations		5,780	(576)
Discontinued operations			
Loss for the year from discontinued operations	9c)	-	(395)
Profit/(loss) for the year		5,780	(971)
Profit/(loss) per ordinary share - EPS			
Basic and diluted EPS on profit/(loss) for the year (US$)	13	0.03	(0.006)
Basic and diluted EPS – continuing operations (US$)	13	0.03	(0.003)

Total Statement of Comprehensive Income

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

Serica Energy plc
Balance Sheet
As at 31 December

	Note	**Group** **2009** **US$000**	2008 US$000	**Company** **2009** **US$000**	2008 US$000
Non-current assets					
Exploration & evaluation assets	14	66,030	69,711	-	-
Property, plant and equipment	15	53,864	68,526	-	-
Goodwill	16	148	295	-	-
Investments in subsidiaries	17	-	-	130,684	130,684
Financial assets	18	-	1,500	-	1,500
Other receivables	18	5,639	3,945	-	-
		125,681	143,977	130,684	132,184
Current assets					
Inventories	19	2,855	4,618	-	-
Trade and other receivables	20	106,381	7,069	211,664	157,856
Financial assets	20	1,500	-	1,500	-
Cash and cash equivalents	21	18,412	56,822	16,922	37,758
		129,148	68,509	230,086	195,614
TOTAL ASSETS		254,829	212,486	360,770	327,798
Current liabilities					
Trade and other payables	22	(9,622)	(14,599)	(6,569)	(8,366)
Financial liabilities	23	(46,447)	(32,105)	(46,447)	(32,105)
Non-current liabilities					
Financial liabilities	23	(24,371)	-	(24,371)	-
Deferred income tax liabilities	12d)	(1,435)	(295)	-	-
TOTAL LIABILITIES		(81,875)	(46,999)	(77,387)	(40,471)
NET ASSETS		172,954	165,487	283,383	287,327
Share capital	25	207,633	207,633	172,361	172,361
Merger reserve	17	-	-	112,174	112,174
Other reserves		17,197	15,510	17,197	15,510
Accumulated deficit		(51,876)	(57,656)	(18,349)	(12,718)
TOTAL EQUITY		172,954	165,487	283,383	287,327

Approved by the Board on 16 March 2010

Paul Ellis	Christopher Hearne
Chief Executive Officer	Finance Director
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Serica Energy plc
Statement of Changes in Equity
For the year ended 31 December 2009

Group

	Share capital US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2008	158,871	13,729	(56,685)	115,915
Loss for the year	-	-	(971)	(971)
Total comprehensive income	-	-	(971)	(971)
Issue of share capital	51,046	-	-	51,046
Costs associated with shares issued	(2,465)	-	-	(2,465)
Proceeds on exercise of options	181	-	-	181
Share-based payments	-	1,781	-	1,781
At 31 December 2008	207,633	15,510	(57,656)	165,487
Profit for the year	-	-	5,780	5,780
Total comprehensive income	-	-	5,780	5,780
Share-based payments	-	1,687	-	1,687
At 31 December 2009	207,633	17,197	(51,876)	172,954

Company

	Share capital US$000	Merger reserve US$000	Other reserves US$000	Accum'd deficit US$000	Total US$000
At 1 January 2008	123,599	112,174	13,729	(5,551)	243,951
Loss for the year	-	-	-	(7,167)	(7,167)
Total comprehensive income	-	-	-	(7,167)	(7,167)
Issue of share capital	51,046	-	-	-	51,046
Costs associated with shares issued	(2,465)	-	-	-	(2,465)
Proceeds on exercise of options	181	-	-	-	181
Share-based payments	-	-	1,781	-	1,781
At 31 December 2008	172,361	112,174	15,510	(12,718)	287,327
Loss for the year	-	-	-	(5,631)	(5,631)
Total comprehensive income	-	-	-	(5,631)	(5,631)
Share-based payments	-	-	1,687	-	1,687
At 31 December 2009	172,361	112,174	17,197	(18,349)	283,383

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

	Group 2009 US$000	2008 US$000	Company 2009 US$000	2008 US$000
Cash flows from operating activities:				
Operating loss (including discontinued)	(16,440)	(36,165)	(4,281)	(5,320)
Adjustments for:				
Depreciation	118	146	-	-
Depletion and amortisation	2,227	-	-	-
Asset write offs	8,590	24,034	-	-
Share-based payments	1,687	1,781	1,687	1,781
(Increase)/decrease in trade and other receivables	(7,810)	11,528	209	488
Decrease/(increase) in inventories	40	2,092	-	-
(Decrease)/increase in trade and other payables	(2,071)	(11,981)	(1,450)	1,643
Cash outflow from operations	(13,659)	(8,565)	(3,835)	(1,408)
Taxes received	-	3,227	-	-
Net cash outflow from operations	(13,659)	(5,338)	(3,835)	(1,408)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(41,609)	(62,605)	-	-
Purchase of E&E assets	(22,976)	(27,939)	-	-
Funding provided to Group subsidiaries	-	-	(53,662)	(41,697)
Proceeds from disposals	5,000	55,831	-	-
Interest received	50	1,898	43	1,354
Net cash used in investing activities	(59,535)	(32,815)	(53,619)	(40,343)
Cash proceeds from financing activities:				
Net proceeds from issue of shares	-	48,581	-	48,581
Proceeds on exercise of options	-	181	-	181
Proceeds from loans and borrowings	40,144	25,000	40,144	25,000
Finance costs paid	(5,360)	(1,425)	(3,526)	(1,425)
Net cash from financing activities	34,784	72,337	36,618	72,337
Net (decrease) / increase in cash and cash equivalents	(38,410)	34,184	(20,836)	30,586
Cash and cash equivalents at 1 January	56,822	22,638	37,758	7,172
Cash and cash equivalents at 31 December	18,412	56,822	16,922	37,758

Serica Energy plc

Notes to the Financial Statements

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

The Group's and Company's financial statements for the year ended 31 December 2009 were authorised for issue by the Board of Directors on 16 March 2010 and the balance sheets were signed on the Board's behalf by Paul Ellis and Chris Hearne. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales. The principal activity of the Company and the Group is to identify, acquire and subsequently exploit oil and gas reserves primarily in South East Asia and Europe. The Company's ordinary shares are traded on AIM and the TSX-V.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2009. 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 2009 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$5,631,000 (2008: US$7,167,000).

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 2009.

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

Going Concern

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above. As at 31 December 2009 the Group had US$52 million of debt net of available cash and, following the receipt of proceeds from the disposal of assets to Kris Energy, by 12 March 2010 the Company had US$40 million of net cash.

The Directors are required to consider the availability of resources to meet the Group and Company's liabilities for the forseeable future. As described in the MD&A, the current business environment is challenging and access to new equity and debt remains uncertain. However, the management considers that it will not require recourse to either to cover its existing commitments.

This is based upon the following factors: the Kambuna field commenced production in August 2009 and operating cash inflows are now being generated; gas sales contracts for Kambuna are in place at fixed prices and any fluctuations in condensate prices will be largely offset by variations in cost recovery entitlement; the Company has a record of prudent financial management, including the raising of capital through farm down and the sale of part of its Kambuna field interest; and, the Company has an established relationship with its existing banking syndicate. The option of further asset sales is also open to the Company.

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

Use of judgement and estimates and key sources of estimation uncertainty

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

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

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.

Decommissioning provisions
Management has determined that, based on their understanding of the contractual agreements they are party to in Indonesia, the Company does not have any exposure to future decommissioning costs as at 31 December 2009. However these assumptions involve judgement, which may be subject to change, and therefore the position will be reviewed on an ongoing basis. A change in circumstances may result in a liability being recorded in future periods.

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).

Basis of Consolidation

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

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

Foreign Currency Translation

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

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

Business Combinations and Goodwill

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

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

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

Joint Venture Activities

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

In accordance with industry practice, the Group does not record its share of costs that are ‘carried’ by third parties in relation to its farm-in agreements 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.

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

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

Exploration and Evaluation Assets

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

Pre-licence Award Costs

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

Exploration and Evaluation

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

E&E assets are not amortised prior to the conclusion of appraisal activities but are assessed for impairment at an asset level and in regional 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 are expensed in the income statement if licences are relinquished, or if management do not expect to fund significant future expenditure in relation to the licence.

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

Asset Purchases and Disposals

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

Property, Plant and Equipment – Oil and gas properties

Capitalisation

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

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.

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 associated estimated future discounted cash flows of the related commercial oil and gas reserves.

Asset Disposals

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

Decommissioning

Liabilities for decommissioning costs are recognised when the Group has an obligation to dismantle and remove a production, transportation or processing facility and to restore the site on which it is located. Liabilities may arise upon construction of such facilities, upon acquisition or through a subsequent change in legislation or regulations. The amount recognised is the estimated present value of future expenditure determined in accordance with local conditions and requirements. A corresponding tangible item of property, plant and equipment equivalent to the provision is also created. The Group did not carry any provision for decommissioning costs during 2008 or 2009.

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

Property, Plant and Equipment - Other

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

Inventories

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

Investments

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

Financial Instruments

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

Financial assets

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

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

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

Equity

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

Revenue Recognition

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

Finance Revenue

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

Finance Costs

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

Borrowing costs

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

Share-Based Payment Transactions

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.

Income Taxes

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

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

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

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

Earnings Per Share

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

New standards and interpretations not applied

Certain new standards, amendments to and interpretations of existing standards have been issued and are effective for the Group's accounting periods beginning on or after 1 January 2010 or later periods which the Group has not early adopted. Those that are applicable to the Group are as follows:

i) IFRS 3 'Business Combinations (Revised)' effective for annual periods beginning on or after 1 July 2009, have been enhanced to, amongst other matters, specify the accounting treatments for acquisition costs, contingent consideration, pre-existing relationships and reacquired rights. The revised standards include detailed guidance in respect of step acquisitions and partial disposals of subsidiaries and associates as well as in respect of allocation of income to non-controlling interests. Further, an option has been added to IFRS 3 to permit an entity to recognise 100 per cent of the goodwill of an acquired entity, not just the acquiring entity's portion of the goodwill. The impact of this standard on the group will be assessed when a business combination transaction occurs.

ii) IAS 27 'Consolidated and Separate Financial Statements (Amendments)' effective for annual periods beginning on or after 1 July 2009, prescribes accounting treatment in respect of change in ownership interest in a subsidiary, allocation of losses incurred by a subsidiary between controlling and non-controller interests and accounting for loss of interest in a subsidiary. This may affect the group where a subsidiary with non-controlling interest becomes loss making or, there is a change in ownership interest in any of its subsidiaries.

iii) IFRIC 17 'Distributions of Non-cash Assets to owners' this interpretation provides guidance in respect of accounting for non-cash asset distributions to shareholders. This interpretation is effective for periods beginning on or after 1 July 2009. Management will consider its impact on the financial position of the group at the time of any such transaction.

iv) ‘Improvements to International Financial Reporting Standards (issued 2008)’ and ‘Improvements to International Financial Reporting Standards (issued 2009)’ – in May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.