

# SERICA ENERGY PLC

## 2010

### ANNUAL REPORT AND ACCOUNTS

Company Number: 5450950



## **CHAIRMAN'S REPORT**

Dear Shareholder

I write at a time when unprecedented events are taking place in North Africa and the Middle East and the political landscape is changing in many of the important oil producing nations. Oil prices are again rising strongly and business horizons are changing quickly.

How long it will be before the situation stabilises is uncertain but, with the scale of the disaster in Japan also likely to slow the development of nuclear energy, it is clear that the need for new sources of oil and gas is stronger than ever. The role of smaller players in developing new ideas in previously overlooked or under explored regions has been fully demonstrated in recent years and that role will continue. It is our firm belief that the Company has the skills and potential to pursue such opportunities.

In 2010, Serica carried out its most active exploration programme, drilling a total of four wells in the East Irish Sea, the UK North Sea and Indonesia. The results were, however, disappointing. The two wells drilled in Indonesia encountered hydrocarbons but not in commercial quantities. Of the four wells, three were drilled by Serica as operator. I am pleased to report that all were drilled to a very high technical standard, fully demonstrating the Company's operating skills. A significant proportion of the Company's share of UK drilling costs was borne by partners as the result of farm-outs. However, we are writing off US\$29.5 million to account for seismic, drilling and other costs borne by the Company in 2010 and earlier years. The bulk of this relates to wells drilled in Indonesia.

In Indonesia, the Kambuna field consistently delivered at the rate demanded throughout the year and continues to do so. However the greater than expected reservoir pressure decline noted in our second and third quarter results has not significantly improved and has resulted in a downward revision to reserves. We have accordingly taken an impairment charge of US\$11.8 million to the carrying cost of the asset.

In the light of these results, the Board has been reviewing its strategy and the areas in which it operates. In Indonesia, the Board has felt that the cost and difficulty of doing business is too high compared to the potential rewards and we have already been gradually disposing of our interests. This has enabled us to realise material profits from two sales over the past two years and we are currently in discussions with interested parties with a view to the possible disposal of the balance of our Indonesian properties. In the UK, the infrequency of licensing round awards and the challenges in gaining access to existing infrastructure, where we have yet to reach agreement on commercial terms that would enable us to bring our Columbus field onto production, provide additional constraints. The change to North Sea taxation recently announced by the Chancellor of the Exchequer is likely to add further uncertainty to delay the development of new North Sea fields.

Whilst continuing to seek ways in which we can expand and accelerate our business in the UK the Company is now setting its sights on new areas where we feel there are opportunities for greater growth. We have a strong position in the waters west of Ireland, where we have already shown the presence of oil in the Slyne Basin, and have emerging positions in the Irish Rockall basin and in the waters off Morocco. We intend to build on these as well as looking for new underexplored areas. We expect to be successful in the award of three out of the four UK offshore blocks for which we applied in the 26th Licensing Round and are in negotiations for new prospective acreage overseas.

As we seek to expand these activities we are announcing a number of executive changes. Paul Ellis, our Chief Executive, reaches normal retirement age on 10th April 2011 and, in accordance with his contract, will be retiring from the Company on that

date. Whilst he is retiring at a time when the Company has yet to see the full benefits of his hard work I personally, and the Board, would like to thank him for all he has done to build the technical and operating skills of the Company and to lay the foundations for the future. Until the process of identifying a successor to the CEO has been completed I shall be acting as Chairman and interim CEO and I am pleased that Paul will continue to provide his full support to the Company in a consultancy capacity during this period including representing the Company for new licence awards currently under negotiation.

It is a major plank of the Company's forward strategy to identify acquisition possibilities, both in the UK and overseas, to complement our exploration activities and to provide Serica with additional growth potential. To further this objective, Peter Sadler will be taking up the role of Business Development Director. I am pleased that this will enable the Company to benefit from Peter's skills and his wide experience to the full. Mitch Flegg, who has been responsible for the successful drilling operations of all of Serica's wells over the past five years and for the field development studies for Columbus, will be taking over from Peter as Chief Operating Officer. Mitch has the undoubted experience for the role and I am delighted that he has accepted the position.

Since the start of 2011 the Company has paid off all outstanding debt and retains undrawn facilities amounting to US\$50 million. With technical expertise, proven operating capability, no debt and cash resources currently standing at some US\$21 million the Company is in a good position to seek new exploration and partnership opportunities whilst building on its existing acreage. We recognise that the risks and the time frames involved in exploration are significant limiting factors and the disappointing outcome of our 2010 exploration programme has been a setback. It is to increase opportunity, spread risk, accelerate return and improve the chance of success that, as we expand our portfolio and focus on new areas, we shall be reviewing the potential for acquisition.

The Company's share price has performed poorly over the year, reflecting the lack of drilling success in 2010 and the downward revision to Kambuna reserves. However, the Company's core assets and healthy balance sheet provide a strong underpinning and I hope that 2011 will see a substantial improvement for all shareholders.

Tony Craven Walker  
Chairman  
30 March 2011

## **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 2010.

Serica's activities are based 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 – 2010**

By the end of 2009, having achieved farm-outs in preparation for the Conan and Oates exploration wells, commenced production from the Kambuna field and reduced our exposure in South East Asia through the transaction with Kris Energy, Serica anticipated an exciting year in 2010. However, all the hard work carried out to establish an excellent starting point for the year did not ultimately bring the rewards for which we had hoped.

In Indonesia, the difficulties encountered with the Kambuna field gas buyer in 2009 continued to affect gas sales well into 2010 and the buyer did not finally resolve its problems until July, when contract rates were then achieved through the end of the year. In mid-year we noted that Salamander Energy, the Kambuna field operator, had reported a reduction in forecast Kambuna ultimate recoverable reserves based on early indications of a greater than expected reservoir pressure decline observed in one of the Kambuna wells. Given the significant extrapolation required to make this forecast, and based on previous experience with other similar reservoirs, we took the view that, in time, the rate of pressure decline might reduce, leading to a less severe reserves forecast.

However, by the end of 2010 there was little sign of any change in the decline rate and our independent reserves evaluators, RPS, have therefore reduced Serica's remaining reserves as shown in the table in our results. Serica's original interest in the Kambuna field was 65% and through transactions in 2008 and 2009 we reduced our stake to 25%. As a result the reduction in reserves is not as significant to the Company as it could have been. Kambuna gas sales in 2011 are continuing to meet expectations and average around 40 mmscfd gross, with gross condensate sales around 3,400 bpd. The condensate sales price in February 2011 was \$105.88/bbl.

Our drilling programme in the Kutai PSC Indonesia encountered gas in both the Dambus and Marindan offshore exploration wells, but unfortunately not in commercial quantities. In November we announced that we were undertaking a strategic review of our Indonesian assets and we are currently in discussion with interested parties which may lead to a sale of the properties

In 2009 we discovered non-commercial oil in a shallow Jurassic reservoir in the Bandon well in our Slyne Basin licence FEL 1/06 off the west coast of Ireland and, in 2010, we carried out the site surveys and environmental studies required for further drilling. We now have all the data required to drill two deeper Jurassic oil prospects at the Boyne and Liffey locations and are seeking a new partner in the blocks prior to contracting a drilling rig. Due to the extreme sea conditions experienced in the winter months it is only possible to drill a well in the Irish Atlantic in the short summer drilling season. Whilst it is possible to drill in 2011 it is more likely that drilling will take place in 2012.

We have also been continuing our studies in the Irish Rockall Basin Licence FEL 1/09, to refine our interpretation of the Muckish prospect. The Rockall Basin is a highly

underexplored area of the Atlantic Margin off the north west coast of Ireland and we are making plans to be ready to drill the Muckish prospect in 2012

In the UK we continued our efforts to secure commercial terms for the processing and transportation agreements for Columbus field production via the adjacent Lomond field, operated by BG Group ("BG").

Serica (on behalf of the Columbus partners) has been actively cooperating with BG in the design and FEED studies for a Bridge Linked Platform ("BLP") to be installed adjacent to the Lomond field platform that would receive production from Columbus, Arran and other fields (including future BG developments) for transportation via the Lomond field to the CATS and Forties pipeline systems. As part of these studies, the Columbus partners carried out a pipeline route survey from Columbus to the proposed BLP location.

However negotiations to date with BG have not secured acceptable terms and it is currently uncertain that Columbus will be developed via Lomond. In parallel with its negotiations with BG, Serica has therefore been evaluating alternative export routes in conjunction with its partners in Block 23/16f and other field operators in the area

Netherland Sewell Associates Incorporated ("NSAI") has reviewed the sub-surface data on Columbus and also Serica's detailed report prepared to complement the Field Development Plan submission. The NSAI review incorporates wells drilled in Block 23/21 to the south by BG and NSAI interprets the data to indicate that some of the Columbus reserves may lie in Block 23/21. On this basis NSAI interpret gross 2P reserves lying in Block 23/16f to be 12.6 mmboe, a net 6.3 mmboe to Serica. Further studies are required to determine the reserve allocation between the blocks but the NSAI review results in a 2P reserves reduction net to Serica of 2.5 mmboe.

We drilled two exploration wells in UK waters during the year, for each of which we had high expectations.

In the East Irish Sea we drilled the Conan prospect in Block 113/26b, a Triassic Sherwood Sandstone gas prospect lying about 10 kilometres from the North Morecambe gas field. Although the well encountered the Sherwood reservoir, the sands were water-bearing and the well was plugged and abandoned as a dry hole. It is now believed that an anomalously thick anhydrite layer found above the reservoir level was responsible for creating a seismic response that appeared to indicate the presence of hydrocarbons and that this layer is thin or absent above the examples of valid hydrocarbon responses seen over many of the gas fields discovered in the East Irish Sea. The result has not changed the merits of the Doyle prospect in the adjacent Block 113/27c. Serica has a 65% interest in the Block and expects to see further drilling in this licence

In the Central North Sea we drilled the Oates prospect in Block 22/19c, a Palaeocene Forties Sandstone prospect that exhibits a very similar seismic response to that seen at the Columbus field 20 kilometres to the east. The Forties reservoir was encountered as prognosed but, as at Conan, the sands were water-bearing. It has taken some time to understand why the exploration technique that was 100% successful in the Columbus area (seven gas-condensate discoveries in seven exploration wells) did not result in a hydrocarbon discovery at Oates. The most likely reason for the false hydrocarbon indicator is the anomalous nature of the overlying shale that can produce a very similar response to that of hydrocarbons.

As is our normal practice we worked hard to minimise Serica's downside cost and both of the UK wells were farmed out in order to achieve significant cost reduction. The cost of the two wells to Serica was around US\$3 million out of a total of about US\$24 million

As we realise the value of our interests in Indonesia we can focus more attention on areas of greater prospectivity and better commercial terms than those currently available in South East Asia and we intend to reshape our exploration portfolio on that

basis. We shall also seek acquisitions that will enable us to build the exploration portfolio more rapidly than is possible through licence round awards.

With no debt and with the proven abilities to manage the downside of the exploration business, Serica is well positioned to move forward with new and exciting projects. Peter Sadler is taking responsibility as Business Development Director to pursue acquisition opportunities for the Company and Mitch Flegg, who has been with Serica since 2006, is to take over the position of Chief Operating Officer. Both Peter and Mitch have a huge amount of experience to bring to these roles and I look forward to seeing the results of their new responsibilities.

Finally, while it has been a great pleasure to work with the Serica team since 2005, all good things must eventually come to an end. After nearly 43 years in the E&P business, the time has come for me to take a back seat and I shall be retiring on 10<sup>th</sup> April. I expect to be involved in a consultancy role in the future, helping the Company on its new course, and I still have a large personal shareholding – so I will certainly be maintaining my interest in Serica's future.

I should like to thank the Serica staff and the Board for supporting me over the last 5½ years and I remain very confident of the Company's ultimate success.

**Paul Ellis**  
**Chief Executive Officer**

## REVIEW OF LICENCE HOLDINGS AND OPERATIONS

Serica holds offshore licence interests in the UK North Sea, the UK East Irish Sea, Ireland and Morocco, onshore licence interests in Spain and licence interests both onshore and offshore in Indonesia.

The following table summarises the Company's Licences as at 31 December 2010

Block(s)	Description	Role	% at 31/12/10	Location
<b>UK</b>				
15/21g	Exploration	Non-operator	30%	Central North Sea
22/19c	Exploration	Non-operator	50%	Central North Sea
23/16f	Columbus field Development planned	Operator	50%	Central North Sea
23/16g	Exploration	Operator	50% (1)	Central North Sea
48/17d	Exploration	Operator	65% (2)	Southern Gas basin
110/2d	Exploration	Operator	100%	East Irish Sea
113/26b	Exploration	Operator	65%	East Irish Sea
113/27c	Exploration	Operator	65%	East Irish Sea
210/19a	Exploration	Operator	100%	Northern North Sea
210/20a	Exploration	Operator	100%	Northern North Sea
<b>Ireland</b>				
27/4	Exploration	Operator	50%	Slyne Basin
27/5 (part)	Exploration	Operator	50%	Slyne Basin
27/9	Exploration	Operator	50%	Slyne Basin
5/17	Exploration	Operator	100%	Rockall Basin
5/18	Exploration	Operator	100%	Rockall Basin
5/22	Exploration	Operator	100%	Rockall Basin
5/23	Exploration	Operator	100%	Rockall Basin
5/27	Exploration	Operator	100%	Rockall Basin
5/28	Exploration	Operator	100%	Rockall Basin
<b>Spain</b>				
Abiego	Exploration	Operator	75%	Pyrenees/Ebro Basin
Barbastro	Exploration	Operator	75%	Pyrenees/Ebro Basin
Binéfar	Exploration	Operator	75%	Pyrenees/Ebro Basin
Peraltila	Exploration	Operator	75%	Pyrenees/Ebro Basin
<b>Morocco</b>				
Foum Draa	Exploration	Non-operator	25%	Tarfaya Basin
Sidi Moussa	Exploration	Non-operator	25%	Tarfaya Basin
<b>Indonesia</b>				
Glagah Kambuna TAC	Kambuna Field Production	Non-Operator	25%	Offshore North Sumatra
East Seruway PSC	Exploration	Operator	100%	Offshore North Sumatra
Kutai PSC	Exploration	Operator	30%	Kutai basin

### Notes

- (1) Interest relinquished in February 2011
- (2) Interest now 0% following transfer of 65% interest and operatorship to Hansa Hydrocarbons in January 2011

The following is a summary of the status of operations on these licences.

## **United Kingdom**

### **Columbus Field Area - Block 23/16f – Central North Sea**

Block 23/16f covers an area of approximately 52 square kilometres in the Central North Sea and contains the majority of the Columbus field, discovered by Serica in 2006. Serica operates the block and holds a 50% interest.

Serica has drilled three successful wells in the Columbus field Palaeocene Forties Formation sands in Block 23/16f and in 2009, in the adjacent Block 23/21, Lomond field operator BG International Limited ("BG") completed drilling two wells which encountered Forties sands with similar reservoir pressures to those at Columbus.

In 2010 BG carried out FEED studies for a Bridge Linked Platform ("BLP") adjacent to the Lomond platform that would provide gas and condensate reception facilities for Columbus and other fields. However, the commercial proposal that has recently emerged from BG for processing and transportation via the BLP and the Lomond field are such that Serica and its partners in Block 23/16f are continuing to evaluate alternative export routes.

Independent consultant Netherland, Sewell & Associates ("NSAI") carried out a reserves report on the Columbus field for the end of 2010. This report estimates that the gross Proved plus Probable Reserves of the field are 79.5 bcf of gas and 4.9 mm bbl of liquids, a total of 18.2 mmboe. Serica holds a 50% interest in those Columbus reserves lying in Block 23/16f and NSAI estimates that Serica's net reserves are 26.8 bcf of sales gas and 1.8 mm bbl of liquids.

### **Central North Sea – Block 23/16g**

Following further technical review, the Block was relinquished by Serica and its joint venture partner in February 2011.

### **Central North Sea - Block 22/19c**

In June 2009 Serica was awarded sole rights to a Production Licence over UK Central North Sea Block 22/19c in the UK 25th Round of Offshore Licensing. Block 22/19c is located approximately 20 kilometres to the west of Serica's Columbus field.

In January 2010 Serica reached agreement with Premier Oil plc ("Premier") for the farm-out of Block 22/19c. Under the terms of the farm-out agreement, Premier funded the Oates exploration well and assumed the role of operator. Serica was carried through the well and retains a 50% interest.

The Oates well 22/19c-6 was spudded on 30 July. The target of the well was the Palaeocene age Forties Sandstone, which is a significant oil and gas producing reservoir in the Central North Sea. The data acquired on the Oates well confirms that the Forties Sandstone was entered at 2,904 metres measured depth ("MD") BRT but logging indicates that no hydrocarbons are present in the sands at this location and the well was plugged and abandoned as a dry hole. Detailed analysis of the well results was undertaken to determine the reason for the apparent hydrocarbon indicators on the 3D seismic data and it appears that the specific nature of the overlying shale can produce an apparent hydrocarbon response in the Forties Sandstone reservoir. This new insight will help to reduce exploration risk in future exploration wells drilled in this play.



#### Central North Sea – Block 15/21g

Block 15/21g was awarded in the 25th Round of UK Offshore Licensing in 2008. Serica has a 30% interest with its partners Encore (40% interest and operator) and Nautical Petroleum (30%). It occupies an area of 33 square kilometres in the Central North Sea, immediately west of the Scott field and contains a potentially significant extension to the existing Jurassic oil discovery well 15/21-38 in Block 15/21a, which flowed 2660 bpd of 25° API oil from a good quality Jurassic aged Upper Claymore sand. The "Spaniards" prospect is a stratigraphic trap and pressure interpretation suggests that the oil column in the discovery well may extend down-dip into Block 15/21g

The Spaniards Prospect is shared between Block 15/21g and Block 15/21a, operated by DEO Petroleum. The 15/21a and 15/21g groups are currently discussing plans to drill a joint well to test the prospect.

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

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

In January 2010 Serica reached agreement with Agora Oil & Gas (UK) AS ("Agora") for the farm-out of the blocks. Under the terms of the farm-out agreement, Agora funded 70% of the Conan exploration well and has earned a 35% interest in the blocks. Serica retains a 65% interest and operatorship of the blocks.

The Conan exploration well 113/26b-3 was spudded on 10 May and reached a total depth of 1,827 metres. The main reservoir target, the Triassic age Sherwood Sandstone, was encountered at 1,776 metres but no hydrocarbons were encountered and the well was plugged and abandoned. It appears that the seismic anomaly that defined the Conan prospect and that was thought to indicate the presence of hydrocarbons was related to a lithological feature not previously seen in other wells in the area.

Recently Agora assigned part of its interest to MPX Energy Ltd and plans for further exploration of the blocks are being discussed, with particular attention being paid to the Doyle prospect which has not been affected by the results of the Conan well.

#### Northern North Sea - Blocks 210/19a and 210/20a

In October 2010, in the 26th Round of UK Offshore Licensing, the Company was awarded a Licence over Blocks 210/19a and 210/20a in the Northern North Sea ("NNS"). Serica is the operator of the new licence and has a 100% interest.

Blocks 210/19a and 210/20a are contiguous part blocks immediately adjacent to the Otter field. A number of oil prospects have been provisionally identified on the blocks at Jurassic Brent Group and Home Sand levels. Two of the Brent Group prospects are down-faulted traps, an emerging and successful play in the NNS, and the other is a conventional Brent fault block. The fourth prospect is in a Jurassic reservoir known as the Home Sand.

The work programme includes the licensing and interpretation of 3D seismic data and Serica will make a drill or drop decision within two years of the award.

### Southern North Sea – Block 48/17d

In January 2011, Serica relinquished its 65% operated interest in Block 48/17d to Hansa Hydrocarbons, the operator of the adjacent Block 48/16a which contains the Chablis discovery.

### Pending UK Licences

Awards of further licences applied for by Serica in the 26<sup>th</sup> Round of UK are expected to be made when the results of environmental assessments currently being undertaken by the Department of Energy and Climate Change have been assessed.

## **Ireland**

### Slyne Basin – Licence FEL 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, which covers an area of 611 square kilometres in the Slyne Basin off the west coast of Ireland.

The shallow Jurassic oil discovery made by Serica in 2009 in the Bandon exploration well 27/4-1 provides clear evidence of the presence of oil in this part of the Slyne Basin although the discovery itself was not commercial. Having subsequently identified deeper Jurassic oil prospects of potentially commercial size at the Liffey and Boyne locations, Serica acquired well-site survey data in preparation for a drilling programme in 2011/12.

### Rockall Basin – Licence FEL 1/09 – Blocks 5/17, 5/18, 5/22, 5/23, 5/27 and 5/28

Serica holds a 100% working interest in Licence FEL 1/09 covering six blocks 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.

The Rockall Basin has an areal extent of over 100,000 square kilometres 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, approximately nine kilometres to the south of the licence, encountered a 214 metre hydrocarbon column.

Serica shot several new 2D long-offset seismic lines across the Muckish structure, a large exploration prospect already identified on existing 3D seismic data, and evaluation of the data has increased confidence in the potential of the prospect, which covers an area of approximately 30 square kilometres in a water depth of 1,450 metres.

## **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 and the Company is currently seeking a farm-in partner.

## **Morocco**

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

Sidi Moussa and Fom Draa are covered by over 5,200 square kilometres of modern 3D seismic data and over 2,000 kilometres of 2D seismic data. A drill or drop decision is required to be made at the end of the initial phases of the Agreements. The initial phase of the Sidi Moussa area was due to end February 2011 and that of Fom Draa is due to end February 2012. Discussions are at an advanced stage with the Government concerning an extension of the initial phase for Sidi Moussa which is expected to be confirmed soon.

The Tarfaya Basin is geologically analogous to the oil producing salt basins of West Africa. Based on the extensive grid of existing seismic data, Serica has identified a large number of prospects and leads in the Blocks. The areas extend from the Moroccan coastline into water depths reaching a maximum of 2,000 metres.

## **Indonesia**

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

The Glagah Kambuna Technical Assistance Contract ("TAC") covers an area of approximately 380 square kilometres and lies offshore North Sumatra. Serica holds an interest of 25% in the TAC which contains the producing Kambuna gas field.

The Kambuna gas is used for power generation to supply electricity to the city of Medan in North Sumatra and for industrial uses. The gas sales prices per thousand standard cubic feet under the contracts with PLN and Pertiwi Nusantara Resources ("Pertiwi") are currently approximately US\$5.40 and US\$7.00 respectively, escalated at 3% per annum. A third contract for the supply of gas for LPG attracts the same price as the PLN contract and can add up to 10% to contracted gas sales.

Kambuna gas yields significant volumes of condensate (light oil) and currently approximately 75 barrels of condensate per million standard cubic feet of sales gas are extracted. The condensate is sold to the state oil company Pertamina at the official Attaka Indonesian Crude Price less 11 cents per barrel. The Kambuna condensate lifted in December fetched a price of US\$93.01/barrel with sales in February 2011 realising US\$105.88/barrel.

The operational difficulties experienced by PLN soon after first gas in 2009 persisted into 2010, with contract rates not being achieved consistently until the second half. Gross Kambuna field sales were 11,278 million standard cubic feet of gas and 980,193 barrels of condensate, equivalent to gross average daily sales for the year of 31 mmscfd and 2,685 bbl/day.

By the third quarter of 2010 average gross gas sales were in excess of 40 mmscfd with all three gas buyers purchasing gas. In September 2010, average gas sales of 42 mmscfd were achieved, the highest monthly figure to date. The field was shut down for two weeks in November 2010 to complete the commissioning of the permanent production facilities, and average gas sales in December 2010 of 39 mmscfd were achieved.

In August 2010 Serica reported that the Kambuna field operator, Salamander Energy, had commissioned an independent reserves audit of its operated fields, including the Kambuna field. The operator's new estimates of reserves relied primarily on shut-in and flowing down-hole pressure data recorded in only one of the Kambuna wells during a period of interrupted production. It was noted that, if the estimates were to be confirmed by future field observations it would result in a reduction in Serica's remaining net entitlement 2P reserves as at 1 January 2010, from 6.0 mmboe to 3.4 mmboe.

Serica commissioned an independent reserves audit on the Kambuna field for its 2010 annual reserves filings. This new reserves report, carried out by RPS Energy, the same consultants as used by the operator, estimates that at 31 December 2010 the gross Proved plus Probable Reserves of the field are 28.1 bcf of sales gas and 2.3 mm bbl of condensate, a total of 8.2 mmboe. These new estimates reflect significant reductions in reserves from the figures previously reported by Serica in 2009, and occur as a result of observing a faster than anticipated pressure decline in the Kambuna 3 well. However, part of the reduction in reserves is due to the reclassification of the Upper Belumai reservoir interval as contingent resources rather than reserves. The Upper Belumai interval represented approximately 20% of the best estimate of gas initially in place in the Kambuna field made by RPS as at 31 December 2009 for Serica's 2009 annual report.

The Kambuna offshore facilities are designed to accommodate a further well which the Joint Venture has approved for drilling in 2011 to exploit the gas bearing potential of a northern extension of the field. This activity plus the planned installation of gas compression which is being brought forward, is expected to maintain the productive capacity of the field at current levels until late 2011 or early 2012.

The performance of the field will continue to be monitored throughout 2011 as further production information becomes available.

#### East Seruway PSC

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

Serica has a detailed regional understanding of the offshore North Sumatra Basin having been a PSC operator there since 2003. In 2010, the Company 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.

Serica is currently interpreting the new seismic data before drilling an exploration well in the block.

#### Kutai PSC

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

The interpretation of offshore 3D seismic data revealed several exploration targets. Serica secured the Trident IX jack-up drilling rig to drill the Dambus and Marindan prospects.

The Dambus-1 offshore exploration well was spudded on 4 September 2010. The objective of the well was to investigate the potential for gas and oil accumulations in a stacked sequence of Miocene sands. Dambus-1 was drilled as a deviated well to a total depth of 3,225 metres MD (2,713 metres true vertical depth subsea ("TVDSS")). Based on the indicative data obtained while drilling, hydrocarbons were encountered in clean

sands in the gross interval 2,070-2,102 metres MD (1,787-1,812 metres TVDSS) and there were indications of further hydrocarbon-bearing sands in an interval below 2,760 metres MD (2,340 metres TVDSS). In order to obtain definitive data on the extent of the hydrocarbon bearing sands, the well was plugged back and sidetracked and wireline logs, pressure data and fluid samples were acquired. Sidetrack Dambus-1ST was drilled to a total depth of 2,800 metres MD (2,568 metres TVDSS). Excellent quality gas-bearing Miocene reservoir sands were encountered in the interval 2,025-2,047 metres MD (1,795-1,816 metres TVDSS) of which the net gas-bearing sands amounted to approximately 18 metres.

Following an extensive logging and sampling programme in Dambus-1ST, the deeper sands were found to be water bearing. The upper gas-bearing sands alone are not currently expected to be commercially exploitable by themselves and the well was plugged and abandoned. Other prospects and leads exist in the area around Dambus and they will be reviewed in light of the Dambus result. The gas discovered at Dambus will reduce the threshold volume required for the development of any further resources that may be discovered in the immediate area.

The Trident IX drilling rig then moved to the Marindan prospect in the southern offshore part of the PSC and the Marindan-1 well was spudded on 27 October 2010. The objective of the well was to investigate the potential for hydrocarbon accumulations in a sequence of Miocene sands and carbonates. Marindan-1 was drilled as a deviated well and on 2 December 2010 reached total depth of 3,469 metres measured depth ("MD") (3,225 metres TVDSS). High gas readings and oil shows were recorded in the interval 2,670-3,260 metres MD and downhole logs indicate thin hydrocarbon bearing sand and carbonate reservoirs, but the indicated volume of hydrocarbons present is not expected to be sufficient to justify commercial development and the well was plugged and abandoned.

Hydrocarbons have been discovered both at Marindan and Dambus, but the accumulations found in the wells are not sufficient to support standalone development. A review of options for the development of these discoveries together with other undrilled prospects in the Kutai PSC is currently underway.

### **Forward Programme**

Serica has an active exploration and field development programme for 2011.

In the UK, efforts continue to bring the Columbus field to project sanction. Negotiations are ongoing with BG with a view to securing acceptable terms for offtake via the Lomond platform but, in the event that agreement is not reached, the 23/16f partners are developing alternative offtake solutions. In Block 15/21g a well is planned on the Spaniards prospect, subject to agreement with the partners on the neighbouring Block 15/21a. The Spaniards prospect straddles both blocks. In the East Irish Sea, the possibility of drilling the Doyle prospect in Block 113/27c is under review.

In Ireland, plans are in hand to drill two wells on the Boyne and Liffey prospects which have been identified following the discovery of oil in the 2009 Bandon well drilled by Serica. Due to the costs involved in drilling Boyne and Liffey the Company is seeking a partner before the wells are drilled and, with the short drilling season in the Irish Atlantic, the wells are therefore more likely to be drilled in 2012 than in 2011.

In Spain our Permit areas are under review by a potential farminee and, if terms can be agreed, a commitment to drill an exploration well will be given to the Spanish authorities.

In Morocco we have identified a large number of prospects in our offshore acreage and we anticipate that at least one of the licences will be extended into the second exploration period in which a well will be drilled.

In Indonesia, a well is planned to exploit the gas bearing potential of a northern extension of the Kambuna field. If this well is successful, it will increase field reserves and, together with the installation of compression facilities, will extend Kambuna field plateau production rates. This well is scheduled to be drilled in the second half of 2011. In the adjacent East Seruway Block, an exploration well is scheduled for the end of 2011 or early 2012. In the Kutai PSC area, an onshore well commitment is outstanding but we have so far been unable to secure a drilling permit from the Forestry authorities. Serica is continuing to analyse the results of the 2010 offshore drilling campaign in order to determine the future offshore programme.

Serica has identified new areas which it believes hold greater prospects for growth and it will continue to pursue these opportunities throughout 2011. In November 2010 the Company announced a strategic review of its Indonesian assets. As a result of this review the Company is evaluating proposals from interested parties which may lead to a disposal of these properties. Any funds raised would be invested in new ventures where the Company sees greater potential.

## **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
mmboe	million barrels of oil equivalent
mmBtu	million British Thermal Units
mmscfd	million standard cubic feet per day
PSC	Production Sharing Contract
Proved Reserves	Proved reserves are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves
Probable Reserves	Probable reserves are those additional Reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves.
Possible Reserves	Possible reserves are those additional Reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved + probable + possible reserves
Reserves	Estimates of discovered recoverable commercial hydrocarbon reserves calculated in accordance with the Canadian National Instrument 51-101
Contingent Resources	Estimates of discovered recoverable hydrocarbon resources for which commercial production is not yet assured, calculated in accordance with the Canadian National Instrument 51-101
Prospective Resources	Estimates of the potential recoverable hydrocarbon resources attributable to undrilled prospects, calculated in accordance with the Canadian National Instrument 51-101
TAC	Technical Assistance Contract
tcf	trillion standard cubic feet

## 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 loss of US\$44.2 million for 2010 compared to a profit of US\$5.8 million for 2009

<i>Continuing operations</i>	<b>2010 US\$000</b>	<b>2009 US\$000</b>
Sales revenue	31,302	7,643
Cost of sales	(18,758)	(6,376)
Gross profit	<u>12,544</u>	<u>1,267</u>
Expenses:		
Impairment of fixed assets and goodwill	(11,797)	-
Pre-licence costs	(1,924)	(901)
E&E asset and other write offs	(29,486)	(8,590)
Administrative expenses	(7,353)	(6,639)
Foreign exchange gain	55	228
Share-based payments	(1,231)	(1,687)
Depreciation	(137)	(118)
Operating loss before net finance revenue and tax	<u>(39,329)</u>	<u>(16,440)</u>
Profit on disposal	-	26,864
Finance revenue	174	641
Finance costs	(4,083)	(3,754)
(Loss)/profit before taxation	<u>(43,238)</u>	<u>7,311</u>
Taxation charge for the year	(979)	(1,531)
(Loss)/profit for the year	<u>(44,217)</u>	<u>5,780</u>
Earnings/(loss) per ordinary share - EPS		
Basic and diluted EPS on (loss)/profit for the year (US\$)	(0.25)	0.03

Serica generated a gross profit of US\$12.5 million for the year ended 31 December 2010 from its retained 25% interest in the Kambuna Field

The Company generated its first sales revenue from the Kambuna field in Indonesia during Q3 2009. Revenue is recognised on an entitlement basis for the Company's net working field interest. All revenue in 2010 was generated from a 25% field interest, revenues for Q3 and Q4 2009 were generated from a 50% field interest until mid December 2009 when a 25% interest in the asset was disposed of to KrisEnergy Limited.



In 2010, gross Kambuna field gas production averaged 31 mmscf per day together with average condensate production of 2,685 barrels per day. Field commissioning work was completed in Q4 2010. The 2010 gas production was sold at prices averaging US\$5.88 per Mscf (2009 US\$5.48 per Mscf) and generated US\$15.3 million (2009 US\$4.0 million) of revenue net to Serica. Condensate production is stored and sold when lifted at a price referenced to the Indonesia Attaka official monthly crude oil price. Liftings in the year earned US\$16.0 million (2009 US\$3.6 million) of revenue net to Serica at an average price of US\$80.8 per barrel (2009 US\$72.1 per barrel).

Cost of sales for 2010 were driven by production from the Kambuna field and totalled US\$18.8 million (2009 US\$6.4 million). The charge comprised direct operating costs of US\$7.6 million (2009 US\$4.5 million) and non cash depletion of US\$11.5 million (2009 US\$2.2 million), partially offset by an increase in condensate inventory of US\$0.3 million (2009 US\$0.3 million). The direct operating costs included temporary Early Production Facility charges of US\$2.3 million which were incurred until the completion of the permanent Onshore Receiving Facility in the fourth quarter 2010. The direct operating costs and depletion rose as a result of increased production from the Kambuna field. Depletion charges per boe increased significantly in Q4 2010 following the Kambuna field reserves downgrade announced in the operating review.

The Company generated a loss before tax of US\$43.2 million for 2010 compared to a profit before tax of US\$7.3 million for 2009.

The overall 2010 loss before tax included a US\$11.8 million pre-tax impairment of the Kambuna asset and US\$29.5 million of Exploration and Evaluation (E&E) and other asset write offs which are discussed below. The 2009 profit before tax included a profit on disposal of US\$26.9 million.

The US\$11.8 million pre-tax impairment related to the Kambuna field and resulted from the reserves downgrade. The impairment is recorded against oil and gas property, plant and equipment (US\$11.7 million) and goodwill (US\$0.1 million).

Pre-licence costs included direct costs and allocated general administrative costs incurred on oil and gas activities prior to the award of licences, concessions or exploration rights. The expense of US\$1.9 million for 2010 was significantly higher than the 2009 charge of US\$0.9 million. The increase largely arose from the work undertaken during Q2 2010 on the 26<sup>th</sup> Licensing Round in the UK and during Q4 2010 on other new ventures in the Western Hemisphere. During 2010 the Company was awarded interests in Blocks 210/19a and 210/20a in the UK Northern North Sea and is awaiting the outcome of other applications.

Asset write offs in 2010 of US\$29.5 million (2009 of US\$8.6 million) included E&E asset expenses from the Kutai PSC in Indonesia (US\$24.3 million) and Oates in the UK North Sea (US\$3.5 million). The Management's decision to write off Kutai costs follows the impairment of the Kambuna field, whose reserves had previously covered the carrying cost of the Company's SE Asia assets. The Management's decision to write off the costs of the Oates prospect follows the unsuccessful well and the absence of any further drilling plans for the block. Other write offs included costs from relinquished licences and sundry items. The asset write off of US\$8.6 million during 2009 was primarily allocated to the Chablis block (US\$7.1 million).

Administrative expenses of US\$7.4 million for 2010 increased from US\$6.6 million for 2009. The Company continues to manage carefully its financial resources and the increase reflects greater corporate activity in the year compared to 2009.

The impact of foreign exchange was not significant in 2010 or 2009.

Share-based payment costs of US\$1.2 million reflected share options granted and compare with US\$1.7 million for 2009. Whilst further share options were granted in

January 2010, the incremental charge generated from those options has been offset by the decline in charges for options granted in prior years. Included within the respective annual charges are expenses of US\$0.8 million (Q4 2009) and US\$0.2 million (Q1 2010) arising from the extension of certain existing share options in December 2009. The extension of certain existing share options in November 2010 created a charge of US\$0.1 million that was fully expensed in Q4 2010 and included within the 2010 annual charge.

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'.

The 2009 profit on disposal of US\$26.9 million was generated in December 2009 when 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.

Finance revenue for 2010, comprising interest income of US\$0.2 million, compares with US\$0.6 million for 2009. The majority of finance revenue was earned in Q1 2010 and Q4 2009 and arose from interest earned on the consideration from the South East Asia asset disposal noted above. Bank deposit interest income has been negligible in 2010 and 2009 due to the significant reduction in average interest rate yields available since 2H 2008.

Finance costs consist of interest payable, arrangement 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 commenced commercial production during Q3 2009.

The taxation charge of US\$1.0 million (2009 US\$1.5 million) arose from Indonesian operations, and comprised a deferred tax credit of US\$0.1 and a current tax charge of US\$1.1 million.

The net loss per share of US\$0.25 for 2010 compares to net earnings per share of US\$0.03 for 2009.

### Summary of Quarterly Results

Quarter ended:	31 Mar US\$000	30 Jun US\$000	30 Sep US\$000	31 Dec US\$000
<b>2010</b>				
Sales revenue	5,334	6,537	10,018	9,413
(Loss)/profit for the quarter	(2,740)	(1,646)	281	(40,112)
Basic earnings per share US\$	(0.02)	(0.01)	0.002	(0.22)
Diluted earnings per share US\$	(0.02)	(0.01)	0.002	(0.22)
<b>2009</b>				
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

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

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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.

## Working Capital, Liquidity and Capital Resources

### Current Assets and Liabilities

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

	<b>31 December 2010 US\$000</b>	31 December 2009 US\$000
Current assets:		
Inventories	2,748	2,855
Trade and other receivables	14,669	106,381
Financial assets	-	1,500
Cash and cash equivalents	30,002	18,412
Total Current assets	47,419	129,148
Less Current liabilities.		
Trade and other payables	(13,574)	(9,231)
Income tax payable	(1,466)	(391)
Financial liabilities	(11,671)	(46,447)
Total Current liabilities	(26,711)	(56,069)
Net Current assets	20,708	73,079

At 31 December 2010, the Company had net current assets of US\$20.7 million which comprised current assets of US\$47.4 million less current liabilities of US\$26.7 million, giving a significant overall decrease in working capital of US\$52.4 million in the year.

Inventories decreased from US\$2.9 million to US\$2.7 million over the year

Trade and other receivables at 31 December 2010 totalled US\$14.7 million, which included US\$5.5 million of trade debtors from gas and condensate sales in November and December. Other significant items included US\$1.6 million for the Company's share of a rig deposit for the Kutai drilling programme, other advance payments on ongoing operations, recoverable amounts from partners in joint venture operations in the UK and Indonesia, sundry UK and Indonesian working capital balances, and prepayments. The significant decrease from the 2009 year end debtor balance of US\$106.4 million was largely caused by the receipt of cash proceeds in January 2010 from the disposal of assets to KrisEnergy Limited in December 2009. All trade debtors outstanding at Q4 2010 were received in Q1 2011.

Financial assets at 31 December 2009 represented US\$1.5 million of restricted cash deposits which were utilised during Q1 2010.

Cash and cash equivalents increased from US\$18.4 million to US\$30.0 million in the year. In January 2010, the Company received US\$99.2 million in outstanding consideration from KrisEnergy and it repaid US\$60.7 million in gross drawings on its loan facility in the year. During 2010 the Company generated US\$31.3 million of revenues from the Kambuna field but also incurred ongoing field operating costs and exploration drilling expense on two wells in Indonesia and the Conan well in the UK. Other costs included seismic work across the portfolio in Indonesia and Ireland, Columbus Field Development Plan expense together with ongoing administrative costs and corporate activity.

Trade and other payables of US\$13.6 million at 31 December 2010 chiefly include significant trade creditors and accruals from the 2010 Kutai offshore drilling programme and the completion of the permanent production facilities of the Kambuna field. Other items include sundry creditors and accruals from the ongoing Indonesian and UK

exploration programmes, payables for administrative expenses and other corporate costs

The current tax creditor of US\$1.5 million arises in respect of Indonesian operations.

Financial liabilities comprise drawings under the senior debt facility and are disclosed net of the unamortised portion of allocated issue costs. The balance was classified as short-term as at 31 December 2010 and was fully repaid in February 2011.

#### Long-Term Assets and Liabilities

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

	<b>31 December 2010 US\$000</b>	31 December 2009 US\$000
Exploration and evaluation assets	68,604	66,030
Property, plant and equipment	37,546	53,864
Goodwill	-	148
Financial assets	1,431	-
Long-term other receivables	4,748	5,639
Financial liabilities	-	(24,371)
Provisions	(1,706)	-
Deferred income tax liabilities	(1,339)	(1,435)

During 2010, total investments in petroleum and natural gas properties represented by exploration and evaluation assets ("E&E assets") increased from US\$66.0 million to US\$68.6 million. These amounts exclude the Kambuna development and production costs which are classified as property, plant and equipment.

The net US\$2.6 million increase consists of US\$30.6 million of additions, less US\$27.8 million of asset write-offs and US\$0.2 million of relinquished licence costs. 2010 write-offs were charged against the Kutai (US\$24.3 million) and Oates (US\$3.5 million) assets.

The US\$30.6 million of additions were incurred on the following assets:

In Indonesia, US\$16.3 million was incurred on the Kutai PSC, chiefly on the Dambus and Marindan exploration wells, and US\$4.1 million was spent on exploration work and G&A on the East Seruway concession.

In the UK & Western Europe, US\$3.6 million was incurred on the Company's share of drilling the Conan well in the East Irish Sea, US\$3.9 million on the Columbus FDP (including FEED work on the BLP), US\$0.5 million on a site survey in Ireland and US\$2.0 million on other UK and Ireland exploration work and G&A. The Company's share of drilling costs on the Oates prospect in Block 22/19c was borne by a third party following the farm-out announced in Q1 2010. US\$0.3 million was incurred on the Morocco interests.

Property, plant and equipment chiefly comprise the net book amount of the capital expenditure on the Company's interest in the Kambuna development. During 2010, the Company's investment decreased from US\$53.8 million to US\$36.7 million. This US\$17.1 million decrease comprised depletion charges of US\$11.5 million arising from the production of gas and condensate, and the Q4 2010 impairment of US\$11.6 million, partially offset by US\$4.3 million of capex additions in the year and the decommissioning asset of US\$1.7 million set up in Q4 2010 to correspond with the booked decommissioning liability. The property, plant and equipment also included balances of

US\$0.8 million (2009: 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, was impaired following the downgrade in Kambuna reserves and reduced from US\$0.1 million to US\$nil

Financial assets at 31 December 2010 represented US\$1.4 million of restricted cash deposits.

Long-term other receivables of US\$4.7 million are represented by value added tax ("VAT") on Indonesian capital spend which will be recovered from future production.

Financial liabilities as at 31 December 2009 represented by drawings under the senior secured debt facility are disclosed net of the unamortised portion of allocated issue costs.

Provisions of US\$1.7 million at 31 December 2010 are in respect of Kambuna field decommissioning payments in Indonesia.

The deferred income tax liability of US\$1.3 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

	<b>31 December 2010 US\$000</b>	<b>31 December 2009 US\$000</b>
Total share capital	207,657	207,633
Other reserves	18,428	17,197
Accumulated deficit	(96,093)	(51,876)

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\$17.2 million to US\$18.4 million reflects a credit to equity in respect of share-based payment charges in 2010.

#### Asset values and Impairment

At 31 December 2010 Serica's market capitalisation stood at US\$122 million (£79 million), based upon a share price of £0.445, which was exceeded by the net asset value at that date of US\$130 million. By 29 March 2010 the Company's market capitalisation had decreased to US\$110 million. Management conducted a thorough review of the carrying value of its assets and determined that no further write-downs were required beyond those already disclosed above.

#### Capital Resources

##### *Available financing resources and debt facility*

Serica's prime focus has been to deliver value through exploration success. To-date this has given rise to the Kambuna gas field development in Indonesia, with first production achieved in August 2009, and the Columbus gas field in the UK North Sea, for which development plans are being formulated.

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

In November 2009 the Company replaced its US\$100 million debt facility with a new three-year facility for an equal amount. The new facility, which was arranged with J.P.Morgan plc, Bank of Scotland plc and Natixis as Mandated Lead Arrangers, was principally to refinance the Company's outstanding borrowings on the Kambuna field. It was also put in place to finance the appraisal and development of the Columbus field and for general corporate purposes.

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, and at 31 December 2010, the Company held cash and cash equivalents of US\$30.0 million and US\$1.4 million of restricted cash. Following the debt repayments in the year, management decided to reduce the facility to US\$50 million total capacity so as to restrict ongoing facility costs. The ability to draw under the facility for development is determined both by the achievement of milestones on the relevant project and also by the availability calculated under a projection model.

As of 29 March 2011, the Company's debt facility was fully repaid, leaving a net cash position of approximately US\$21.0 million.

Overall, the current cash balances held, the revenues from the retained 25% Kambuna interest and the control that the Company can exert over the timing and cost of its exploration programmes both through operatorship and through farm-outs leave it well placed to manage its commitments.

#### *Summary of contractual obligations*

The following table summarises the Company's contractual obligations as at 31 December 2010;

Contractual Obligations	Total US\$000	<1 year US\$000	1-3 years US\$000	>3 years US\$000
Long term debt	11,800	11,800	-	-
Operating leases	1,330	609	721	-
Other long term obligations	1,826	260	696	870
Total contractual obligations	14,956	12,669	1,417	870

#### *Lease commitments*

At 31 December 2010, Serica had no capital lease obligations. At that date, the Company had commitments to future minimum payments under operating leases in respect of rental office premises and office equipment for each of the following years as follows:

	US\$000
31 December 2011	609
31 December 2012	539

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

As at 31 December 2010, the Company's share of expected outstanding capital costs in respect of its 25% interest on the Kambuna project totalled approximately US\$2.0 million. These expected costs include amounts contracted for but not provided as at 31 December 2010

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 2011 US\$ 11,250,000

Year ending 31 December 2012 US\$ nil

These obligations reflect the Company's share of the defined work programmes and were not formally contracted at 31 December 2010. The Company is not obliged to meet other joint venture partner shares of these programmes. The most significant 2011 obligations are in respect of the East Seruway PSC and Kutai PSC in Indonesia. Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK and Indonesia.

### Off-Balance Sheet Arrangements

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

### Critical Accounting Estimates

The Company's significant accounting policies are detailed in note 2 to the attached audited 2010 financial statements. International Financial Reporting Standards have been adopted. The costs of exploring for and developing petroleum and natural gas reserves are capitalised and the capitalisation and any write off of E&E assets, or depletion of producing assets necessarily involve certain judgments with regard to whether the asset will ultimately prove to be recoverable. Key sources of estimation uncertainty that impact the Company relate to assessment of commercial reserves and the impairment of the Company's assets. Oil and gas properties are subject to periodic review for impairment whilst goodwill is reviewed at least annually. Impairment considerations necessarily involve certain judgements as to whether E&E assets will lead to commercial discoveries and whether future field revenues will be sufficient to cover capitalised costs. Recoverable amounts can be determined based upon risked potential, or where relevant, discovered oil and gas reserves. In each case, recoverable amount calculations are based upon estimations and management assumptions about future outcomes, product prices and performance. Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment charge is required.

### Financial Instruments

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

Serica has exposure to interest rate fluctuations on its cash deposits and its bank loans; given the level of expenditure plans over 2011/12 this is managed in the short-term through selecting treasury deposit periods of one to three months. Treasury counterparty credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.



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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 2010, the following director and employee share options were outstanding:

Expiry Date	Amount	Exercise cost Cdn\$
December 2014	200,000	200,000
January 2015	600,000	600,000
June 2015	1,100,000	1,980,000
		Exercise cost £
August 2012	1,200,000	1,182,000
October 2013	750,000	300,000
January 2014	656,000	209,920
November 2015 (i)	334,000	323,980
November 2015	117,000	113,490
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	723,000	737,460
May 2017	405,000	421,200
March 2018	1,581,000	1,185,750
March 2018	850,000	697,000
January 2020	4,153,500	2,824,380
June 2020	250,000	162,500

- (i) In November 2010 options held under the Serica Energy PLC Enterprise Management Incentive Plan (the EMI Plan) were extended for a further five years to November 2015

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.

In April 2010, 52,000 share options were exercised by employees other than directors at a price of £0.32.

In January 2011, 90,000 share options were exercised by employees other than directors at a price of £0.32.

## Outstanding Share Capital

As at 29 March 2011, the Company had 176,660,311 ordinary shares issued and outstanding.

## Business Risk and Uncertainties

Serica, like all companies in the oil and gas industry, operates in an environment subject to inherent risks. Many of these risks are beyond the ability of a company to control, particularly those associated with the exploring for and developing of economic

quantities of hydrocarbons. Principal risks can be classified into four main categories: operational, commercial, regulatory and financial

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

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

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

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

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

The principal activity of the Company is to identify, acquire and subsequently exploit oil and gas reserves. Its current activities are located primarily in Western Europe, North Africa and Indonesia

The Company's financial statements have been prepared with the assumption that the Company will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. During the year ended 31 December 2010 the Company generated a loss of US\$44.2 million from continuing operations. At 31 December 2010 the Company had US\$18 million of net cash

The Company intends to utilise its existing cash balances and future operating cash inflows, together with the currently available portion of the US\$50 million senior secured debt facility, to fund the immediate needs of its investment programme and ongoing operations. Further details of the Company's financial resources and debt facility are given above in the Financial Review in this MD&A

### **Additional Information**

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

Approved on Behalf of the Board

Paul Ellis  
Chief Executive Officer

Christopher Hearne  
Finance Director

30 March 2011

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## **Forward Looking Statements**

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

## **CONSOLIDATED FINANCIAL STATEMENTS OF SERICA ENERGY PLC**

### **Year ended 31 December 2010**

#### **Directors' Report**

The Directors of the Company present their report and the Group financial statements of Serica Energy plc ("Serica" or the "Company") for the year ended 31 December 2010.

#### **Principal Activities**

The principal activity of the Company and its subsidiary undertakings (the "Group") is to identify, acquire, explore and subsequently exploit oil and gas reserves. Its current activities are located primarily in Western Europe, North Africa and Indonesia.

#### **Business Review and Future Developments**

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

#### **Results and Dividends**

The loss for the year was US\$44,217,000 (2009: profit US\$5,780,000).

The Directors do not recommend the payment of a dividend (2009: US\$nil).

#### **Financial Instruments**

The Group's financial risk management objectives and policies are discussed in the Financial Instruments section of the Management's Discussion and Analysis and in note 26.

#### **Events Since Balance Sheet Date**

Events since the balance sheet date are included in note 33.

#### **Directors and their Interests**

The following Directors have held office in the Company since 1 January 2010.

Antony Craven Walker  
Paul Ellis  
Christopher Hearne  
Peter Sadler  
Neil Pike  
Ian Vann  
Steven Theede  
Jonathan Cartwright

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

	<b>Class of share</b>	<b>Interest at end of year</b>	<b>Interest at start of year or date of appointment (if later)</b>
Antony Craven Walker (1)	Ordinary	5,704,473	5,704,473
Paul Ellis (2)	Ordinary	929,369	850,000
Christopher Hearne (3)	Ordinary	737,829	710,551
Peter Sadler (4)	Ordinary	79,369	-
Neil Pike (5)	Ordinary	405,000	405,000
Ian Vann	Ordinary	89,262	89,262
Steven Theede	Ordinary	749,485	749,485
Jonathan Cartwright	Ordinary	20,000	20,000

1 3,513,349 ordinary shares are held by Antony Craven Walker, 1,548,003 ordinary shares are held by Christine Elizabeth Walker and 643,121 by Rathbones (pension fund)

2 300,000 ordinary shares are held by Rowanmoor Trustees (pension fund) In the period to 29 March 2011, Paul Ellis acquired a further 2,778 ordinary shares in the Company increasing his interest to 932,147 ordinary shares

3 In the period to 29 March 2011, Christopher Hearne acquired a further 2,778 ordinary shares in the Company increasing his interest to 740,607 ordinary shares

4 In the period to 29 March 2011, Peter Sadler acquired a further 2,778 shares increasing his interest to 82,147 ordinary shares

5 55,000 ordinary shares are held by Romaine Pike and 350,000 ordinary shares by Luska Limited

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

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

The Directors are interested in share options held by them pursuant to the terms of the Serica Energy Corporation option plan (a summary of which is set out in note 29) as follows:

					Exercise Price	Date of grant	Expiry date
	1/1/10	Granted	Expired	31/12/10	Cdn\$		
P Ellis	1,000,000	-	-	1,000,000	1.80	15/06/05	14/06/15
C Hearne	600,000	-	-	600,000	1.00	17/01/05	16/01/15
	100,000	-	-	100,000	1.80	15/06/05	14/06/15

The above unexpired share options were granted on the basis that the options vest as to one third on each of the first, second and third anniversaries of grant in line with the practice for companies listed in Toronto which applied at the date of grant

The following Directors are also interested in share options held by them pursuant to the terms of the Serica Energy plc Share Option Plan 2005 ("Serica 2005 Option Plan") (a summary of which is set out in note 29) as follows:

	1/1/10	Granted	Exercised	31/12/10	Exercise Price £	Date of grant	Expiry date
P Ellis	103,000	-	-	103,000	0.97	23/11/05	22/11/15
	7,000	-	-	7,000	0.97	23/11/05	22/11/15
	500,000	-	-	500,000	0.82	31/03/08	30/03/18
	-	750,000	-	750,000	0.68	11/01/10	10/01/20
C Hearne	103,000	-	-	103,000	0.97	23/11/05	22/11/15
	7,000	-	-	7,000	0.97	23/11/05	22/11/15
	350,000	-	-	350,000	0.82	31/03/08	30/03/18
	-	675,000	-	675,000	0.68	11/01/10	10/01/20
P Sadler	750,000	-	-	750,000	0.40	28/10/08	27/10/13
	-	750,000	-	750,000	0.68	11/01/10	10/01/20
A Craven Walker	300,000	-	-	300,000	0.985	10/08/07	10/08/12
N Pike	300,000	-	-	300,000	0.985	10/08/07	10/08/12
I Vann	300,000	-	-	300,000	0.985	10/08/07	10/08/12
S Theede	300,000	-	-	300,000	0.985	10/08/07	10/08/12

The options vest as to one third on each of the first, second and third anniversaries of grant in line with the practice for companies listed in Toronto which applied at the date of grant.

At a General Meeting of Shareholders held on 8 December 2009 the maximum period of exercise for options awarded under the Serica 2005 Option Plan was extended from 5 years to 10 years to take advantage of changes introduced in the Toronto Stock Exchange (Ventures) market since the Serica 2005 Option Plan was originally approved by shareholders. In parallel with this change the minimum vesting period was changed to three years to meet guidelines set down by the Association of British Insurers with respect to companies listed in the UK. These changes affect options awarded after 8 December 2009.

At the Extraordinary General Meeting shareholders also approved the extension of the exercise period of existing 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 share options held by non-executive directors awarded in 2007 for which shareholder approval was not requested. The extension of the exercise periods was implemented in 2009 for all those options in the above two tables meeting those price criteria with the exception of those options held under the Serica Energy PLC Enterprise Management Incentive Plan (the EMI Plan). The options held under the EMI Plan were extended for a further five years in November 2010.

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

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

In respect of the options granted in August 2007, directors may only exercise those options on condition that the Serica share price on a 30 day moving average basis prior to 10 August 2012 has reached at least 200p. The target for the final year of exercise was not set due to an omission at the time of grant and has been set by extrapolating the prior year target.

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

In January 2010, 750,000 share options were granted to Paul Ellis, 675,000 share options were granted to Christopher Hearne and 750,000 share options were granted to Peter Sadler with an exercise cost of £0.68 and an expiry date of 10 January 2020. The vesting of the options is subject to Serica share price Performance Conditions measured against a selected peer group consisting of Antrim Energy Inc., Aurelian Oil & Gas plc, Bowleven plc, Falkland Oil & Gas Limited, Faroe Petroleum plc, Gulfsands Petroleum plc, Ithaca Energy Inc, Northern Petroleum plc, Petroceltic International plc, Providence Resources plc, Regal Petroleum plc and Valiant Petroleum plc. The Performance Conditions are as follows:

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

The peer group of comparator companies is subject to change by the Remuneration Committee should the Remuneration Committee feel that the group no longer comprises a meaningful peer group comparator as the result, for example, of a significant change in the Company or one or more of the peer group companies ceasing to be quoted on a recognised exchange. The Remuneration Committee is considering a suitable replacement for Regal Petroleum plc following the announcement of its acquisition by Energie Management Limited. The Remuneration Committee has reviewed the share price performance of the peer group since January 2010 and to date the minimum performance targets have not been met by the Company and accordingly none of the options have vested.

In addition to the above Performance Conditions, exercise of certain of the options is conditional on shares purchased in the Company by the relevant directors being retained for a period of one year from the date of purchase in January 2010. The one year retention criteria was satisfied in January 2011.



## Major Interest in Shares

The Company has been notified of the following interests representing 3% or more of the voting rights in the Company as at 29 March 2011:

	<b>No of shares</b>	<b>Percentage holding</b>
The Canadian Depository for Securities Ltd ("CDS")	34,897,644	19.8
Caledonia Investments	25,501,736	14.4
Fidelity International	17,607,512	10.0
AXA Financial	8,529,277	4.8
Cenkos	8,468,654	4.8
Sprott Asset Management LP	8,143,850	4.6
The Depository Trust Company ("DTC")	7,991,500	4.5
Mr A Craven Walker	5,704,473	3.2

CDS in Canada and DTC (using the nominee Cede & Co) in the USA are registered holders of the above ordinary shares shown against their names and hold such shares as depository and nominee for numerous clients who retain the beneficial interests in the ordinary shares held. The Company has not been able to identify with any reasonable certainty the names of persons who are directly or indirectly interested in 3% or more of the issued ordinary shares of the Company and who hold such ordinary shares through the above depositories. Canadian securities laws require any party holding more than 10% of the Company's issued ordinary shares to disclose such interest. The Company is unaware of any such disclosures.

## Supplier Payment Policy and Practice

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

At 31 December 2010, the Company had an average of 27 days' purchases owed to trade creditors (2009 - 32 days).

## Auditor

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

## Disclosure of information to auditors

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

On behalf of the Board

Christopher Hearne  
Director  
30 March 2011



**Serica Energy plc**

## **CORPORATE GOVERNANCE STATEMENT**

The Board of Directors fully endorses the importance of sound corporate governance. Serica is incorporated in the United Kingdom. Its shares are traded on both the AIM market of the London Stock Exchange ("AIM") and, since November 2010, on the Toronto Stock Exchange in Canada ("TSX") following its graduation from the TSX Venture Exchange. Each of these two markets has established guidelines for good corporate governance practice.

The code of practice followed for companies incorporated in the United Kingdom and listed on the premium sector of the Main Market of the London Stock Exchange is set out in the UK Corporate Governance Code (the "Code") which applies to financial years beginning on or after 29 June 2010. It is not compulsory for companies whose shares are traded on the AIM market but the Board is considering applying those principles of the Code from 1 January 2011 to the extent that it considers it reasonable and practical to do so given the size and nature of the Company. In respect of the year ended 31 December 2010, the Board applied those principles set in the Combined Code on Corporate Governance (which has now been superseded by the Code) where it considered it to be appropriate. The specific instances where it did not fully comply are addressed under the heading "The Board and its Committees" below.

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

Further information regarding the Company's corporate governance practices can be found in the Company's management information circular dated 20 May 2010, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The disclosures below explain the composition of, role and responsibilities of the Board and the Board Committees. The composition of the Board Committees will be reviewed by the Board in the light of the changes to the Board of Directors announced in March 2011.

### **The Board and its Committees**

The Board of the Company consists of three Executive Directors and five non-Executive Directors, including the non-Executive Chairman of the Board, and is considered to be of sufficient size and balance of skills and experience appropriate for a company of Serica's size, stage of development and business. All the non-Executive directors are independent in character and judgement and have the range of experience and calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group.

The Board retains full and effective control over the Company. The Company holds regular Board meetings at which financial and other reports are considered and, where appropriate, voted on. In addition to these meetings, further meetings are arranged when necessary to review strategy, planning, operational, financial performance, risk and capital expenditure and human resource and environmental management. The Board is also responsible for monitoring the activities of the executive management. The Chairman of the Board has the responsibility of ensuring that the Board discharges its responsibilities. In the event of an equality of votes at a meeting of the Board, the Chairman has a second or casting vote.

All of the non-Executive Directors are independent directors within the meaning set out in the Corporate Governance Guidelines (given in more detail in Ontario Securities Commission Multilateral Instruments 58-101 and 52-110). Other than in respect of the

small number of share options held by each of the non-Executive directors except Jonathan Cartwright and, in the case of Jonathan Cartwright, his former position as an executive director of Caledonia Investments plc, the Company's largest shareholder, all of the non-Executive Directors meet the requirements of independence prescribed in the Combined Code. It is the opinion of the Board that the limited number of share options held by non-Executive directors, as is common practice in Canada, is entirely appropriate for a Company of Serica's size and stage of development and that none of these factors prejudice the ability of the non-Executive directors to act independently of management.

The Board believes that there is an adequate balance between the non-Executive and Executive Directors, both in number and in experience and expertise, to ensure that the Board operates independently of executive management. The Board generally has at least ten regularly scheduled meetings in each financial year. Additional meetings are held depending upon opportunities or issues to be dealt with by the Company from time to time. The non-Executive Directors hold informal meetings during the course of the year at which members of management are not in attendance. Individual Directors may engage outside advisors at the expense of the Company upon approval by the Board in appropriate circumstances.

The Board has established a Corporate Governance and Nomination Committee, an Audit Committee, a Reserves Committee, a Remuneration and Compensation Committee, and a Health, Safety and Environmental Committee.

#### Corporate Governance and Nomination Committee

The Corporate Governance and Nomination Committee is responsible for the Company's observation of the Combined Code and the Corporate Governance Guidelines where they apply to the Company, for compliance with the rules of AIM and the TSX and for other corporate governance matters, including compliance with the Company's Share Dealing Code and with AIM and TSX in respect of dealings by directors or employees in the Company's shares. The committee is responsible for monitoring the effectiveness of the Board and its Committees, proposing to the Board new nominees for election as Directors to the Board, determining successor plans for the Chairman and Chief Executive and for assessing directors on an ongoing basis. The committee met four times during 2010 and proposes to meet three times during the next financial year.

The Corporate Governance and Nomination Committee is comprised of three non-Executive directors all of whom are independent (other than as described in "The Board and its Committees" above). It is chaired by Antony Craven Walker and its other members are Neil Pike and Jonathan Cartwright.

#### Audit Committee

The Audit Committee meets at least quarterly and consists of three members, all of whom are non-Executive Directors and independent (other than as described in "The Board and its Committees" above). The committee's purpose is to assist the Board's oversight of the integrity of the financial statements and other financial reporting, the independence and performance of the auditors, the regulation and risk profile of the Group and the review and approval of any related party transactions. The Audit Committee may hold private sessions with management and the external auditor. The Audit Committee met six times in 2010 and proposes to meet six times during the next financial year. The committee is chaired by Neil Pike and its other members are Steven Theede and Jonathan Cartwright.

The responsibilities and operation of the Audit Committee are more particularly set out in the Company's Audit Committee Charter, a copy of which is included as Schedule A to the Company's annual information form for its financial year ended December 31, 2009, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Reserves Committee

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

#### Remuneration and Compensation Committee

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

The Board is responsible for implementing the recommendations and agreeing to the remuneration packages of individual Directors. The Remuneration and Compensation Committee met three times in 2010 and proposes to meet three times during the next financial year. In addition, written resolutions of the committee are passed from time to time particularly in relation to routine matters such as the allotment of shares pursuant to share option exercises.

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

#### Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is responsible for matters affecting occupational health, safety and the environment, including the formulation of a health, safety and environmental policy statements. The committee met four times in 2010 and proposes to meet at least four times during the next financial year. The committee is composed of the Chief Executive and two non-Executive directors. The Health, Safety and Environmental Committee is chaired by Paul Ellis and its other members are Antony Craven Walker and Ian Vann.

## **DIRECTORS' BIOGRAPHIES**

### **Antony Craven Walker Non-Executive Chairman**

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

### **Paul Ellis Chief Executive Officer**

Paul Ellis has over 40 years of experience within the areas of exploration, production, development and management of international oil and gas ventures. He joined Serica from Emerald Energy where, as Chief Operating Officer, he was instrumental in the successful expansion of the company's exploration and production interests. Paul commenced his career with BP and subsequently held senior positions in the international oil and gas industry including Technical Director at Charterhouse Petroleum, Director International E&P at British Gas and Senior Vice President International at PanCanadian Petroleum. He was appointed to the Board as Chief Executive of Serica in 2005.

### **Christopher Hearne Finance Director**

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

### **Peter Sadler Operations Director**

Peter Sadler has a career spanning over 32 years in the international exploration and production business with both major and independent oil companies. He was formerly Chief Executive of Indago Petroleum plc, a Middle East based exploration and production company with projects that included the development of an offshore gas condensate field. He was Regional Manager Middle East for Novus Petroleum in Dubai and held senior positions in independent oil companies in Australia and the UK. He was appointed to the Board as Chief Operating Officer of Serica in 2008.

### **Neil Pike Non-Executive Director**

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

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**Ian Vann**  
**Non-Executive Director**

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

**Steven Theede**  
**Non-Executive Director**

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

**Jonathan Cartwright**  
**Non-Executive Director**

Jonathan Cartwright retired from the Board of Caledonia Investments plc on 31 December 2009, having served as Finance Director since 1991. He qualified as a Chartered Accountant with Peat, Marwick, Mitchell & Co (now KPMG LLP), served as Finance Director of Transworld Petroleum (UK) Limited and subsequently worked for Hanson plc initially as Group Financial Controller and also as Finance Director of a number of Hanson subsidiaries. He served as a non-Executive Director for Bristow Group Inc from 1996 – 2009. He was appointed to the Board of Serica in 2008.

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## **Directors' responsibilities statement in relation to the Group and Company financial statements**

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

Under Company Law the Directors must not approve the Group and Company financial statements unless they are satisfied that they present fairly the financial position, the financial performance and cash flows of the Group and Company for that period. In preparing those Group and Company financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance;
- state that the Group and Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- make judgements and estimates that are reasonable and prudent.

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

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

## **Independent Auditors' report to the members of Serica Energy plc**

We have audited the financial statements of Serica Energy plc for the year ended 31 December 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheet, the Group and Parent Company Cash Flow Statement, the Group and Parent Company Statement of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 39 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion

- ▶ the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's loss for the year then ended,
- ▶ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- ▶ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Separate opinion in relation to IFRSs as issued by the IASB**

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

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



**Opinion on other matter prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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

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

*Ernst & Young LLP*

Justine Belton, (Senior Statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
1 More London Place  
London  
SE1 2AF  
30 March 2011

#### Comments by auditors for Canadian readers

Reporting standards under Canadian generally accepted auditing standards may differ from those under International Standards on Auditing in the form and content of the auditors' report, depending on the circumstances. However, had this auditors' report been prepared in accordance with Canadian generally accepted auditing standards, there would be no material differences in the form and content of this auditors' report. Furthermore, an auditors' report prepared in accordance with reporting standards under Canadian generally accepted auditing standards on the aforementioned consolidated financial statements would express an unmodified opinion.

*Ernst & Young LLP*

Justine Belton, (Senior Statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
1 More London Place  
London  
SE1 2AF  
30 March 2011

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

	Notes	2010 US\$000	2009 US\$000
<b>Sales revenue</b>	4	31,302	7,643
Cost of sales	5	(18,758)	(6,376)
<b>Gross profit</b>		12,544	1,267
Impairment of fixed assets and goodwill	16,17	(11,797)	-
Pre-licence costs		(1,924)	(901)
E&E and other asset write offs	15	(29,486)	(8,590)
Administrative expenses		(7,353)	(6,639)
Foreign exchange gain		55	228
Share-based payments	29	(1,231)	(1,687)
Depreciation	7	(137)	(118)
<b>Operating loss before net finance revenue and tax</b>		(39,329)	(16,440)
Profit on disposal	10	-	26,864
Finance revenue	11	174	641
Finance costs	12	(4,083)	(3,754)
<b>(Loss)/profit before taxation</b>		(43,238)	7,311
Taxation charge for the year	13 a)	(979)	(1,531)
<b>(Loss)/profit for the year</b>		(44,217)	5,780
<b>(Loss)/profit per ordinary share - EPS</b>			
Basic and diluted EPS on (loss)/profit for the year (US\$)	14	(0.25)	0.03
Basic and diluted EPS – continuing operations (US\$)	14	(0.25)	0.03

**Group 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

		<b>Group</b>		<b>Company</b>	
		<b>2010</b>	2009	<b>2010</b>	2009
	<i>Note</i>	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
<b>Non-current assets</b>					
Exploration & evaluation assets	15	68,604	66,030	-	-
Property, plant and equipment	16	37,546	53,864	-	-
Goodwill	17	-	148	-	-
Investments in subsidiaries	18	-	-	11,830	130,684
Financial assets	19	1,431	-	1,431	-
Other receivables	19	4,748	5,639	-	-
		<u>112,329</u>	<u>125,681</u>	<u>13,261</u>	<u>130,684</u>
<b>Current assets</b>					
Inventories	20	2,748	2,855	-	-
Trade and other receivables	21	14,669	106,381	123,302	211,664
Financial assets	21	-	1,500	-	1,500
Cash and cash equivalents	22	30,002	18,412	26,696	16,922
		<u>47,419</u>	<u>129,148</u>	<u>149,998</u>	<u>230,086</u>
<b>TOTAL ASSETS</b>		<u>159,748</u>	<u>254,829</u>	<u>163,259</u>	<u>360,770</u>
<b>Current liabilities</b>					
Trade and other payables	23	(13,574)	(9,231)	(939)	(6,569)
Income taxation payable	13	(1,466)	(391)	-	-
Financial liabilities	24	(11,671)	(46,447)	(11,671)	(46,447)
<b>Non-current liabilities</b>					
Financial liabilities	24	-	(24,371)	-	(24,371)
Provisions	25	(1,706)	-	-	-
Deferred income tax liabilities	13d)	(1,339)	(1,435)	-	-
<b>TOTAL LIABILITIES</b>		<u>(29,756)</u>	<u>(81,875)</u>	<u>(12,610)</u>	<u>(77,387)</u>
<b>NET ASSETS</b>		<u>129,992</u>	<u>172,954</u>	<u>150,649</u>	<u>283,383</u>
Share capital	27	207,657	207,633	172,385	172,361
Merger reserve	18	-	-	4,322	112,174
Other reserves		18,428	17,197	18,428	17,197
Accumulated deficit		(96,093)	(51,876)	(44,486)	(18,349)
<b>TOTAL EQUITY</b>		<u>129,992</u>	<u>172,954</u>	<u>150,649</u>	<u>283,383</u>

Approved by the Board on 30 March 2011

Paul Ellis  
Chief Executive Officer

Christopher Hearne  
Finance Director

**Serica Energy plc**  
**Statement of Changes in Equity**  
For the year ended 31 December 2010

**Group**

	<b>Share capital US\$000</b>	<b>Other reserves US\$000</b>	<b>Accum'd deficit US\$000</b>	<b>Total US\$000</b>
At 1 January 2009	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
Loss for the year	-	-	(44,217)	(44,217)
Total comprehensive income	-	-	(44,217)	(44,217)
Share-based payments	-	1,231	-	1,231
Proceeds on exercise of options	24	-	-	24
At 31 December 2010	207,657	18,428	(96,093)	129,992

**Company**

	<b>Share capital US\$000</b>	<b>Merger reserve US\$000</b>	<b>Other reserve US\$000</b>	<b>Accum'd deficit US\$000</b>	<b>Total US\$000</b>
At 1 January 2009	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
Loss for the year	-	-	-	(133,989)	(133,989)
Total comprehensive income	-	-	-	(133,989)	(133,989)
Proceeds on exercise of options	24	-	-	-	24
Share-based payments	-	-	1,231	-	1,231
Transfers	-	(107,852)	-	107,852	-
At 31 December 2010	172,385	4,322	18,428	(44,486)	150,649

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

	<b>Group 2010 US\$000</b>	<b>2009 US\$000</b>	<b>Company 2010 US\$000</b>	<b>2009 US\$000</b>
Operating activities:				
(Loss)/profit for the year	(44,217)	5,780	(133,989)	(5,631)
Adjustments to reconcile (loss)/profit for the year to net cash flow from operating activities				
Taxation	979	1,531	-	-
Net finance costs	3,909	3,113	3,488	1,350
Profit on disposal	-	(26,864)	-	-
Depreciation	137	118	-	-
Depletion and amortisation	11,479	2,227	-	-
Asset write offs	29,486	8,590	-	-
Impairment	11,797	-	126,193	-
Share-based payments	1,231	1,687	1,231	1,687
(Increase)/decrease in trade and other receivables	(9,152)	(7,810)	104	209
Decrease in inventories	177	40	-	-
Increase/(decrease) in trade and other payables	4,343	(2,232)	(546)	(1,573)
<b>Net cash flow from operations</b>	<b>10,169</b>	<b>(13,820)</b>	<b>(3,519)</b>	<b>(3,958)</b>
<b>Investing activities:</b>				
Interest received	765	50	58	43
Purchase of property, plant and equipment	(5,241)	(41,609)	-	-
Purchase of E&E assets	(30,569)	(22,976)	-	-
Proceeds from disposals	99,532	5,000	-	-
Funding provided to Group subsidiaries	-	-	(23,263)	(53,662)
Funds from Group subsidiaries	-	-	99,532	-
<b>Net cash flow from investing activities</b>	<b>64,487</b>	<b>(59,535)</b>	<b>76,327</b>	<b>(53,619)</b>
<b>Financing activities:</b>				
Finance costs paid	(2,313)	(5,360)	(2,313)	(3,526)
Proceeds on exercise of options	24	-	24	-
Proceeds from loans and borrowings	-	40,144	-	40,144
Repayments of loans and borrowings	(60,700)	-	(60,700)	-
<b>Net cash from financing activities</b>	<b>(62,989)</b>	<b>34,784</b>	<b>(62,989)</b>	<b>36,618</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>11,667</b>	<b>(38,571)</b>	<b>9,819</b>	<b>(20,959)</b>
Effect of exchange rates on cash and cash equivalents	(77)	161	(45)	123
Cash and cash equivalents at 1 January	18,412	56,822	16,922	37,758
Cash and cash equivalents at 31 December	<b>30,002</b>	<b>18,412</b>	<b>26,696</b>	<b>16,922</b>

## **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 2010 were authorised for issue by the Board of Directors on 30 March 2011 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. Its current activities are located primarily in Western Europe, North Africa and Indonesia. The Company's ordinary shares are traded on AIM and the TSX

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2010. 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 2010 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\$133,989,000 (2009: US\$5,631,000).

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 2010.

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 2010 the Group had US\$18 million of net cash and, by 29 March 2011, the Company had US\$21 million of net cash.

The Directors are required to consider the availability of resources to meet the Group and Company's liabilities for the foreseeable future. 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: operating cash inflows are being generated from the Kambuna field; 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, share-based payment costs and the assessment of the status of the Group's Indonesian operations review.

#### **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 risk 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 has a constructive obligation to incur future decommissioning costs as at 31 December 2010. 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 change to the 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 29).

#### Indonesian Assets

In late 2010 the Company initiated a strategic review of its Indonesian assets and is currently in discussion with interested parties which may result in the disposal of these assets. However, as such a disposal could not be categorised as 'highly probable' at 31 December 2010, these assets did not meet the relevant criteria to be classified as 'assets held for re-sale under IFRS 5'. The disposal was not considered highly probable at that point as the management was not committed to a particular course of action and a disposal would not be concluded if any offers were not to prove sufficiently attractive to the Company.

#### **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 Glagah Kambuna B.V., Serica East Seruway B.V., Serica Indonesia Holdings B.V., Serica Sidi Moussa B.V. and Serica Foun 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 from 1 January 2010

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

### Business combinations prior to 1 January 2010

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.

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.

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

## **Exploration and Evaluation Assets**

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

### Pre-licence Award Costs

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

### Exploration and Evaluation (E&E)

The costs of exploring for and evaluating oil and gas properties, including the costs of acquiring rights to explore, geological and geophysical studies, exploratory drilling and directly related overheads, are capitalised and classified as intangible E&E assets. These costs are directly attributed to regional CGUs for the purposes of impairment testing, 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 risk potential, and where relevant, discovered oil and gas reserves. When an impairment test indicates an excess of carrying value compared to the recoverable amount, the carrying value of the regional CGU is written down to the recoverable amount in accordance with IAS 36. Such excess is expensed in the income statement.

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

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

### Asset Purchases and Disposals

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

### Farm-ins

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

## **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 recoverable amount of the related commercial oil and gas reserves

### Asset Disposals

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

### Decommissioning

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

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

### **Income Taxes**

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**

The following new and amended IFRS and IFRIC interpretations are mandatory as of 1 January 2010 unless otherwise stated. The impact of those applicable to the Group is described below.

*i) Amendment to IFRS2 Group cash-settled Share-based Payment Arrangements*

The amendment clarifies the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. This amendment did not have any impact on the financial position or performance of the group.

*ii) IFRS 3 (revised) Business Combinations*

The revised standard increases the number of transactions to which it must be applied including business combinations of mutual entities and combinations without consideration. IFRS 3 (revised) introduces significant changes in the accounting for business combinations. These changes will have a significant impact on profit or loss reported in the period of an acquisition, the amount of goodwill recognised in a business combination and profit or loss reported in future periods.

*iii) IAS 27 (amended) Consolidated and Separate Financial Statements*

The amended standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners and these transactions will no longer give rise to goodwill or gains and losses. The standard also specifies the accounting when control is lost and any retained interest is remeasured to fair value with gains or losses recognised in profit or loss. The Group has concluded that the amendment did not have any impact on the financial position or performance of the Group.

*iv) Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible hedged items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group has concluded that the amendment did not have any impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

*v) IFRIC 17 Distribution of Non-cash Assets to Owners*

The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or dividends. The adoption of the interpretation did not have an impact on the Group.

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 2011 or later periods which the Group has not early adopted. Those that are applicable to the Group are as follows:

*i) IAS 24 Related Party disclosures – effective 1 January 2011*

The amended standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The Group does not expect any impact on its financial position or performance.

*ii) IFRS 9 Financial Instruments: Classification and Measurement – effective 1 January 2013*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.



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*iii) IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments - effective 1 July 2010*

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The adoption of this interpretation will have no effect on the financial statements of the Group.

*iv) Improvements to IFRS (issued in May 2010)*

The Group expects no impact from the adoption of the amendments on its financial position or performance.

### 3. Segment Information

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

The following tables present revenue and certain asset and liability information regarding the Group's reportable segments for the years ended 31 December 2010 and 2009. Costs of the Singapore office are included in the Indonesian reportable segment. Costs associated with the Morocco licences, and the corporate centre in the UK are included in the UK & NW Europe reportable segment.

Year ended 31 December 2010	Indonesia US\$000	UK & NW Europe US\$000	Spain US\$000	Total US\$000
<b>Revenue</b>	31,302	-	-	31,302
<i>Continuing operations</i>				
Other expenses	(8,360)	(7,280)	(168)	(15,808)
Pre-licence costs	(356)	(1,568)	-	(1,924)
Asset write offs	(25,671)	(3,700)	(115)	(29,486)
Impairment	(11,797)	-	-	(11,797)
Depletion	(11,479)	-	-	(11,479)
Depreciation	(6)	(131)	-	(137)
Operating loss and segment loss	(26,367)	(12,679)	(283)	(39,329)
Finance revenue				174
Finance costs				(4,083)
Loss before taxation				(43,238)
Taxation charge for the year				(979)
<b>Loss after taxation</b>				(44,217)
 Other segment information:				
Exploration and evaluation assets	5,830	62,774	-	68,604
Plant, property and equipment	36,791	755	-	37,546
Goodwill	-	-	-	-
Other assets	20,936	11,614	48	32,598
Unallocated assets				21,000
<b>Total assets</b>	63,557	75,143	48	159,748
 Segment liabilities	(13,554)	(4,526)	(5)	(18,085)
Unallocated liabilities				(11,671)
<b>Total liabilities</b>	(13,554)	(4,526)	(5)	(29,756)
 Capital expenditure 2010:				
Exploration and evaluation assets	20,116	10,338	115	30,569
Property, plant and equipment	4,406	835	-	5,241

Year ended 31 December 2009	Indonesia US\$000	Vietnam US\$000	UK & NW Europe US\$000	Spain US\$000	Total US\$000
<b>Revenue</b>	<b>7,643</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,643</b>
<i>Continuing operations</i>					
Other expenses	(7,346)	(10)	(7,063)	(55)	(14,474)
Pre-licence costs	(532)	-	(369)	-	(901)
Asset write offs	(944)	-	(7,477)	(169)	(8,590)
Depreciation	(13)	-	(105)	-	(118)
Operating loss	(1,192)	(10)	(15,014)	(224)	(16,440)
Profit on disposal	36,620	-	-	-	36,620
Segment results	34,767	(25)	(28,029)	(6,202)	511
Profit on disposal					26,864
Finance revenue					641
Finance costs					(3,754)
Profit before taxation					7,311
Taxation charge for the year					(1,531)
<b>Profit after taxation</b>					<b>5,780</b>
 Other segment information					
Exploration and evaluation assets	9,681	-	56,349	-	66,030
Plant, property and equipment	53,824	-	40	-	53,864
Goodwill	148	-	-	-	148
Other assets	115,047	-	3,382	58	118,487
Unallocated assets					16,300
<b>Total assets</b>	<b>178,700</b>	<b>-</b>	<b>59,771</b>	<b>58</b>	<b>254,829</b>
 Segment liabilities	(5,516)	-	(5,527)	(14)	(11,057)
Unallocated liabilities					(70,818)
<b>Total liabilities</b>	<b>(5,516)</b>	<b>-</b>	<b>(5,527)</b>	<b>(14)</b>	<b>(81,875)</b>
 Capital expenditure 2009.					
Exploration and evaluation assets	5,475	1,381	15,951	169	22,976
Property, plant and equipment	41,557	-	52	-	41,609

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

Activities in the Vietnam geographical segment were discontinued in 2009 following the disposal of certain interests in South East Asia.

#### 4. Sales Revenue

	<b>2010</b> <b>US\$000</b>	2009 US\$000
Gas sales	15,276	3,985
Condensate sales	16,026	3,658
	<u>31,302</u>	<u>7,643</u>

Gas sales revenue in 2010 arose from three customers, the most significant being PLN and Pertiwi. All condensate sales revenue in 2010, and all gas and condensate sales revenue arising in 2009 was from one customer, PLN.

#### 5. Cost of sales

	<b>2010</b> <b>US\$000</b>	2009 US\$000
Operating costs	7,575	4,449
Depletion (see note 16)	11,479	2,227
Movement in inventories of oil	(296)	(300)
	<u>18,758</u>	<u>6,376</u>

#### 6. Analysis of expenses by function

	<b>2010</b> <b>US\$000</b>	2009 US\$000
Administrative	7,353	6,639
Asset write offs	29,486	8,590
Other	15,034	2,478
	<u>51,873</u>	<u>17,707</u>

#### 7. Group Operating Loss

	<b>2010</b> <b>US\$000</b>	2009 US\$000
This is stated after charging:		
Depletion of oil and gas properties	11,479	2,227
Depreciation of other property, plant and equipment	137	118
Total depreciation, depletion and amortisation expense	<u>11,616</u>	<u>2,345</u>

Depletion of oil and gas properties is classified with cost of sales.

Operating lease rentals (minimum lease payments):

- Land and buildings	407	367
- Other	10	2
Total lease payments recognised as an expense	<u>417</u>	<u>369</u>

## 8. Auditor's Remuneration

	<b>2010</b> <b>US\$000</b>	2009 US\$000
Audit of the Group accounts	140	131
Audit of the Company's accounts	46	43
Total audit fees	<u>186</u>	<u>174</u>
	<b>US\$000</b>	US\$000
Other fees to auditor:		
Audit of Company's subsidiaries pursuant to legislation	18	17
Other services pursuant to legislation	57	62
Taxation services	-	28
Other services (i)	21	22
	<u>96</u>	<u>129</u>

(i) Other fees were incurred in respect of various other assurance services in 2009 and 2010

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

## 9. Staff Costs and Directors' Emoluments

### a Staff Costs

The average monthly number of persons employed by the Group during the year was:	<b>2010 No.</b>	<b>2009 No.</b>
Management	3	3
Technical	17	15
Finance and administration	16	15
	<b>36</b>	<b>33</b>
	<b>US\$000</b>	<b>US\$000</b>
Staff costs for the above persons		
Wages and salaries	3,740	3,743
Social security costs	401	380
Other pension costs	592	622
Share-based long-term incentives (including related NI cost)	1,201	1,737
	<b>5,934</b>	<b>6,482</b>
Staff costs for key management personnel:		
Wages and salaries	1,463	1,522
Social security costs	180	176
Other pension costs	109	93
Share-based payments	426	433
	<b>2,178</b>	<b>2,224</b>

### b Directors' Emoluments

The emoluments of the individual Directors were as follows:

	Salary and fees 2010 US\$000	Pension 2010 US\$000	Benefits in kind 2010 US\$000	<b>Total 2010 US\$000</b>	<b>Total 2009 US\$000</b>
A Craven Walker	108	-	-	108	110
P Ellis	405	40	12	457	451
C Hearne	326	32	8	366	395
P Sadler	371	37	9	417	431
N Pike	62	-	-	62	63
I Vann	54	-	-	54	55
S Theede	54	-	-	54	55
J Cartwright	54	-	-	54	55
	<b>1,434</b>	<b>109</b>	<b>29</b>	<b>1,572</b>	<b>1,615</b>

Number of Directors securing benefits under defined contribution schemes	3	3
Number of Directors who exercised share options	-	-

Aggregate gains made by Directors on the exercise of options

US\$000 US\$000

- -

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

## 10. Asset Disposals

### 2009 South East Asia asset disposals

In December 2009 the Company disposed of a package of assets in Indonesia and Vietnam to KrisEnergy Limited ("KrisEnergy"), a recently formed private E&P company based in Singapore.

The assets sold comprised a 25% interest in the Kambuna gas field in Indonesia, a 24.6% interest in the Kutai PSC in Indonesia and a 33.33% interest in the Block 06/94 PSC in Vietnam. Completion of the Kutai element of the transaction was subject to Indonesian government approval which was received in Q2 2010. The disposal generated a profit of US\$26.9 million after crediting the relevant proportional element of book costs from development assets, E&E assets, goodwill and working capital balances and deducting applicable fees. Further details of book costs relating to the assets sold are given in notes 15, 16 and 17 and summarised in the profit on disposal calculation below.

	<b>Total 2009 US\$000</b>
Base consideration (*)	98,650
Interim period and working capital adjustments	5,500
Total consideration (excluding interest)	<u>104,150</u>
<i>Less book costs of assets disposed</i>	
E&E assets (see note 15)	
Interest in Vietnam Block 06/94 PSC	(15,229)
24.6% interest in Kutai PSC	(3,782)
Property, Plant and Equipment (see note 16)	
25% interest in Glagah Kambuna TAC	(53,926)
Goodwill (see note 17)	(147)
Working capital, other assets and costs	(4,202)
Assets disposed	<u>(77,286)</u>
Profit on disposal of asset interests	<u><u>26,864</u></u>

\* US\$5,000,000 of the base consideration was received in December 2009. The amounts outstanding at 31 December 2009 were settled in January 2010.

## 11. Finance Revenue

	<b>2010</b>	2009
	<b>US\$000</b>	US\$000
Bank interest receivable	57	49
Other interest receivable	117	592
Total finance revenue	<u>174</u>	<u>641</u>

Other interest receivable primarily comprises amounts due from the effective date on the consideration from the South East Asia asset disposal.

## 12. Finance Costs

	<b>2010</b>	2009
	<b>US\$000</b>	US\$000
Bank loans	4,083	3,754
Total finance costs	<u>4,083</u>	<u>3,754</u>

Bank loan finance costs include interest payable and an amortisation charge of associated issue costs.



### 13. Taxation

	<b>2010</b> <b>US\$000</b>	2009 US\$000
a) Tax charged/(credited) in the income statement		
Tax charged/(credited) in the income statement		
Charge for the year	1,302	391
Adjustment in respect of prior years	(227)	-
Total current income tax charge	<u>1,075</u>	<u>391</u>
Deferred tax		
Origination and reversal of temporary differences in the current year	78	1,140
Adjustment in respect of prior years	65	-
Adjustment to reflect tax rate changes in recognition of deferred tax	(239)	-
Total deferred tax charge	<u>(96)</u>	<u>1,140</u>
Tax charge in the income statement	<u>979</u>	<u>1,531</u>

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

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

	<b>2010</b> <b>US\$000</b>	2009 US\$000
Accounting (loss)/profit before taxation	<u>(43,238)</u>	<u>7,311</u>
Expected tax (credit)/charge at standard UK corporation tax rate of 28% (2009 – 28%)	(12,107)	2,047
Expenses not deductible for tax purposes	11,292	2,081
Unrecognised deferred tax assets	4,560	5,071
Release of deferred tax liability	-	(147)
Gain on disposal not chargeable to tax	-	(7,521)
Effect of tax rate change	(239)	-
Prior period adjustment	(164)	-
Different foreign tax rates	(2,363)	-
Tax charge reported in the income statement	<u>979</u>	<u>1,531</u>

c) Unrecognised tax losses

The benefit of approximately US\$86.5 million (2009: US\$60.0 million) of tax losses has not been recognised in these consolidated statements which reflects the extent of the total available UK tax losses that have not been set against a deferred tax liability arising. The Group has UK tax losses of approximately US\$142.3 million (2009: US\$111.5 million) that are available indefinitely for offset against future trading profits of the companies in which the losses arose. Of this amount US\$55.8 million (2009: US\$51.5 million) has been set off against taxable temporary differences.

d) Deferred tax

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

	<b>2010</b>	2009
	<b>US\$000</b>	US\$000
Deferred tax liability		
Fair value adjustments on business combinations	-	(148)
Temporary differences on capital expenditure	(31,060)	(37,335)
Temporary difference on decommissioning asset	(631)	-
	<u>(31,691)</u>	<u>(37,483)</u>
Deferred tax asset:		
Temporary difference on future recoverable costs	1,833	10,307
Tax losses carried forward	27,888	25,741
Temporary difference on decommissioning provision	631	-
	<u>30,352</u>	<u>36,048</u>
Deferred tax asset		
	<u>(1,339)</u>	<u>(1,435)</u>
Net deferred tax liability		

The deferred tax in the Group income statement is as follows

	<b>2010</b>	2009
	<b>US\$000</b>	US\$000
Deferred tax in the income statement:		
Release of liability on disposal	-	(147)
Temporary differences on capital expenditure	(6,275)	1,287
Temporary difference on future recoverable costs	8,474	-
Tax losses carried forward	(2,147)	-
Fair value adjustment on business combinations	(148)	-
Temporary difference on decommissioning asset	631	-
Temporary difference on decommissioning provision	(631)	-
	<u>(96)</u>	<u>1,140</u>
Deferred income tax (credit)/charge		

e) Unrecognised deferred tax liability

In 2010 there are no material temporary differences associated with investments with subsidiaries for which deferred tax liabilities have not been recognised

f) Company

There is no current or deferred taxation charge, or deferred tax asset/liability recognised for the Company (2009: US\$nil).

## 14. Earnings Per Share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares. As a result of the net loss for the year ended 31 December 2010, there is no dilutive effect of the share options in 2010.

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

	<b>2010</b> <b>US\$000</b>	2009 US\$000
Net (loss)/profit attributable to equity holders of the parent	<u>(44,217)</u>	<u>5,780</u>
	<b>2010</b> <b>'000</b>	2009 '000
Basic weighted average number of shares	<u>176,556</u>	<u>176,518</u>
Diluted weighted average number of shares	<u>176,556</u>	<u>176,959</u>
	<b>2010</b> <b>US\$</b>	2009 US\$
Basic and diluted EPS on (loss)/profit for the year (US\$)	(0.25)	0 03
Basic and diluted EPS – continuing operations (US\$)	(0.25)	0 03

In January 2011, 90,000 share options were exercised by employees other than directors

## 15. Exploration and Evaluation Assets

<b>Group</b>	<b>Total US\$000</b>
Cost:	
1 January 2009	69,711
Additions	22,976
Disposals	(19,011)
Write offs	(7,646)
31 December 2009	<u>66,030</u>
Additions	30,569
Relinquished licences	(174)
Write offs	(27,821)
31 December 2010	<u>68,604</u>
Provision for impairment:	
1 January 2009 and 1 January 2010	-
Impairment charge for the year	-
31 December 2010	<u>-</u>
Net book value:	
31 December 2010	<u>68,604</u>
31 December 2009	<u>66,030</u>
1 January 2009	<u>69,711</u>

Total asset write offs expensed in the income statement in 2010 were US\$29,486,000. This charge comprised E&E asset write offs (US\$27,821,000), costs of relinquished licences (US\$174,000), long term VAT costs incurred on the Kutai PSC (US\$843,000), an impairment of other Indonesian VAT (US\$276,000) obsolete inventory in Indonesia (US\$226,000) and other minor amounts.

The E&E asset write offs during 2010 totalled US\$27,821,000 with the most significant component being the Q4 2010 charge of US\$24,295,000 which related to the costs incurred on the Kutai asset in Indonesia and US\$3,526,000 on Block 22/19c (Oates) in the UK North Sea.

The E&E asset disposals in 2009 relate to the disposal of the Group's entire interest in the Block 06/94 PSC in Vietnam, and part disposal of a 24.6% interest in the Kutai PSC in Indonesia (see note 10). The E&E asset write offs during 2009 totalled US\$7,646,000 with the most significant component being the Q1 2009 charge of US\$7,147,000 which related to the costs incurred in 2009 on the completion of the Chablis appraisal well in Block 48/16b in the UK North Sea, which spudded in December 2008. Costs booked in respect of this asset from 2008 and earlier periods were written off in Q4 2008.

### Company

The Company has no E&E assets.

## 16. Property, Plant and Equipment

Group	Oil and gas properties US\$000	Computer/IT Equipment US\$000	Fixtures, Fittings & Equipment US\$000	Total US\$000
Cost				
1 January 2009	68,276	190	511	68,977
Additions	41,595	14	-	41,609
Disposals (see note 10)	(54,936)	-	(80)	(55,016)
31 December 2009	54,935	204	431	55,570
Additions	4,364	82	795	5,241
Decommissioning asset	1,706	-	-	1,706
Disposals	-	-	(277)	(277)
31 December 2010	61,005	286	949	62,240
Depreciation and depletion				
1 January 2009	-	154	297	451
Charge for the year	2,227	20	98	2,345
Disposals (see note 10)	(1,056)	-	(34)	(1,090)
31 December 2009	1,171	174	361	1,706
Charge for the year	11,479	34	103	11,616
Disposals	-	-	(277)	(277)
Impairment	11,649	-	-	11,649
31 December 2010	24,299	208	187	24,694
Net book value				
31 December 2010	36,706	78	762	37,546
31 December 2009	53,764	30	70	53,864
1 January 2009	68,276	36	214	68,526

### Impairment of oil and gas properties

The Group performed its annual impairment test as at 31 December 2010. In assessing whether a write-down is required in the carrying value of a potentially impaired item of property, plant and equipment or goodwill, the asset's carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Oil and gas properties (US\$11,649,000) and goodwill (US\$148,000) include an impairment calculated in accordance with IAS 36 - Impairment of assets, of US\$11,797,000 determined by estimating the value in use of the assets. This impairment charge is against the Group's only gas condensate producing asset, Glagah Kambuna in Indonesia. The impairment has primarily arisen following the trigger of a downwards revision to field reserves estimates.

The recoverable amount of Kambuna has been determined on a value in use calculation using a discounted cash flow model. The projected cash flows are adjusted for risks specific to the asset and are discounted using a pre-tax discount rate. This discount rate is derived from the group's post-tax weighted average cost of capital and is adjusted

where applicable to take into account any specific risks relating to the region where the cash generating unit is located. The discount rate applied to cash flow projections is 16% and cash flows are extrapolated using a 2% growth rate.

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

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

**Other**

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

Borrowing interest payable costs relating to drilling of development wells, that have been capitalised within oil and gas properties during 2009, prior to the commencement of production, amounted to US\$1.2 million, at a weighted average interest of 4.6%

**Company**

The Company has no property, plant and equipment

## 17. Goodwill

<b>Group</b>	<b>Total US\$000</b>
At 1 January 2009	295
Disposals (see note 10)	(147)
At 31 December 2009	148
Impairment	(148)
At 31 December 2010	-

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the groups of cash-generating units, as follows:

Indonesia US\$ nil (2009: US\$148,000).

These represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

Goodwill includes an impairment calculated in accordance with IAS 36 - Impairment of assets, of US\$148,000 determined by estimating the value in use of the assets. This impairment charge is against the Group's gas condensate producing asset, Glagah Kambuna in Indonesia. The impairment has primarily arisen in respect of a downwards revision to the field reserves estimates. Further details are noted in note 16 - Property, Plant and Equipment

### **Company**

The Company has no goodwill

## 18. Investments

<b>Company – Investment in subsidiaries</b>	<b>US\$000</b>
Cost:	
At 31 December 2008 and 2009	130,684
Provision for impairment	(118,854)
At 31 December 2010	<u>11,830</u>

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

Management has assessed the carrying value of investments in subsidiaries in the parent company balance sheet for impairment by reference to the recoverable amount. The provisions for impairment arising in 2010 of US\$118,854,000 against the investment in subsidiaries, and US\$7,339,000 against amounts owed by Group undertakings (see note 21) have been made following a fall in value in certain of the oil and gas assets held by the Company's subsidiary undertakings. The most significant factors influencing the fall in value have been the reduction in booked reserves of the Kambuna field, and sub commercial results from the Group's exploration drilling in the UK and Indonesia during 2010. The recoverable amounts have been determined on a value in use basis, applying discount rates ranging from 15% to 16%



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

Name of company:	Holding	Nature of business	% voting rights and shares held 2010	% voting rights and shares held 2009
Serica Energy Holdings B V (iii)	Ordinary	Holding	100	100
Serica Energy Corporation (i & ii)	Ordinary	Holding	100	100
Serica Holdings UK Ltd	Ordinary	Holding	100	100
Serica Energy (UK) Ltd (i)	Ordinary	Exploration	100	100
Serica Energia Iberica SL (i & iv)	Ordinary	Exploration	100	100
Serica Energy Pte Ltd (i & v)	Ordinary	Admin	100	100
APD Ltd (i & ii)	Ordinary	Holding	100	100
APD (Asahan) Ltd (i & ii)	Ordinary	Exploration	100	100
APD (Biliton) Ltd (i & ii)	Ordinary	Exploration	100	100
PDA Asia Ltd (i & ii)	Ordinary	Holding	100	100
PDA (Lematang) Ltd (i)	Ordinary	Dormant	100	100
Serica Kutei BV (i & iii)	Ordinary	Exploration	100	100
Serica Glagah Kambuna BV (i & iii)	Ordinary	Development	100	100
Serica East Seruway BV (i & iii)	Ordinary	Exploration	100	100
Serica Sidi Moussa BV (i & iii)	Ordinary	Exploration	100	100
Serica Foum Draa BV (i & iii)	Ordinary	Exploration	100	100
Serica Indonesia Holdings BV (i, iii)	Ordinary	Holding	100	100
(i) Held by a subsidiary undertaking				
(ii) Incorporated in the British Virgin Islands				
(iii) Incorporated in the Netherlands				
(iv) Incorporated in Spain				
(v) Incorporated in Singapore				

#### 19. Other Non-current assets

	Group 2010 US\$000	2009 US\$000	Company 2010 US\$000	2009 US\$000
Financial assets	1,431	-	1,431	-
Other receivables	4,748	5,639	-	-

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

Other receivables are represented by value added tax ("VAT") on Indonesian capital spend, which would be recovered from future production. Amounts at 31 December 2010 are disclosed net of an impairment of US\$276,000 (2009: US\$nil).

## 20. Inventories

	<b>Group 2010 US\$000</b>	<b>2009 US\$000</b>	<b>Company 2010 US\$000</b>	<b>2009 US\$000</b>
Condensate stocks	447	151	-	-
Materials and spare parts	2,301	2,704	-	-
	<b>2,748</b>	<b>2,855</b>	<b>-</b>	<b>-</b>

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. During 2010, US\$226,000 of materials and spare parts inventory was expensed in the income statement as an asset write-off.

## 21. Other Current Receivables

	<b>Group 2010 US\$000</b>	<b>2009 US\$000</b>	<b>Company 2010 US\$000</b>	<b>2009 US\$000</b>
Due within one year:				
Amounts owed by Group undertakings	-	-	122,438	209,880
Trade receivables	5,513	2,390	-	-
Other receivables	8,306	102,370	431	1,070
Prepayments and accrued income	850	1,621	433	714
Trade and other receivables	<b>14,669</b>	<b>106,381</b>	<b>123,302</b>	<b>211,664</b>
Financial assets	<b>-</b>	<b>1,500</b>	<b>-</b>	<b>1,500</b>

At the reporting date the Group had no past due or impaired trade and other receivables. Trade receivables at 31 December 2010 arise from three customers, including PLN. These amounts have been received since the reporting date. Other receivables at 31 December 2009 included US\$99.7 million of outstanding consideration (including working capital and interest) from asset disposals. The Directors consider the carrying amount of trade and other receivables approximates to their fair value.

At the reporting date the amounts owed by Group undertakings to the Company are disclosed net of an impairment of US\$7,339,000 (2009: US\$nil) – see note 18.

Financial assets entirely relate to restricted cash on deposit with financial institutions securing various guarantees and performance bonds associated with the Group's trading activities. Management considers that there are no unreasonable concentrations of credit risk within the Group or Company. None of the above are considered past due nor impaired.

## 22. Cash and Short-Term Deposits

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Cash at bank and in hand	9,002	2,112	5,696	622
Short-term deposits	21,000	16,300	21,000	16,300
	<b>30,002</b>	<b>18,412</b>	<b>26,696</b>	<b>16,922</b>

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

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

	S&P credit	<b>Group</b>		<b>Company</b>	
	rating	<b>2010</b>	2009	<b>2010</b>	2009
		<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
HSBC Bank plc	A-1+	7,339	5,030	4,919	4,443
J.P. Morgan Chase	A-1+	8,133	6,230	8,133	6,230
Barclays Bank plc	A-1+	7,478	4,106	6,643	3,249
Bank of Scotland PLC	A-1	7,000	3,000	7,000	3,000

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

## 23. Trade and Other Payables

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Current:				
Trade payables	3,961	4,565	603	786
Other payables	9,613	4,666	336	783
Amounts owed to Group undertaking	-	-	-	5,000
	<b>13,574</b>	<b>9,231</b>	<b>939</b>	<b>6,569</b>

2009 comparative Other payables have been restated to exclude US\$391,000 of taxation payable which has now been classified separately on the face of the Balance Sheet.

## 24. Financial Liabilities

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Current bank loans:				
Variable rate multi-option facility	11,671	46,447	11,671	46,447
	<b>11,671</b>	<b>46,447</b>	<b>11,671</b>	<b>46,447</b>
Non-current bank loans:				
Variable rate multi-option facility	-	24,371	-	24,371
	<b>-</b>	<b>24,371</b>	<b>-</b>	<b>24,371</b>

### Bank loans

On 16 November 2009 the Company entered into a new US\$100 million senior secured revolving credit facility to replace its previous facility of a similar amount. The facility, which has been arranged with J P Morgan plc, Bank of Scotland plc and Natixis as Mandated Lead Arrangers, is for a term of three years. The facility is principally to refinance the Company's outstanding borrowings on the Kambuna field and will also be available to finance the appraisal and development of the Columbus field and for general corporate purposes. The facility is secured by first charges over the Group's interest in the Kambuna field in Indonesia and the Columbus field in the UK North Sea and the shares of certain subsidiary companies.

Following the receipt of proceeds from the disposal of assets to Kris Energy and the significant repayments of borrowings in the year to date, management decided to reduce the facility to US\$50 million so as to restrict ongoing facility costs

The total gross liability as at 31 December 2010 was US\$11.8 million which is disclosed net of the unamortised portion of allocated issue costs. All drawings under the facility were repaid in February 2011 with associated interest of the period of US\$0.1 million and are therefore classified as current.

## 25. Provisions

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

	<b>2010</b> <b>US\$000</b>	<b>2009</b> <b>US\$000</b>
At 1 January	-	-
Additions	1,706	-
Unwinding of discount	-	-
At 31 December	<u>1,706</u>	<u>-</u>

The decommissioning for the Kambuna field is expected to take place from 2015

## 26. Financial Instruments

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

Serica has exposure to interest rate fluctuations on its cash deposits and bank loans, given the level of expenditure plans over 2011/12 this is managed in the short-term through selecting treasury deposit periods of one to three months. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise concentration and counterparty risk.

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

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

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

### Interest Rate Risk Profile of Financial Assets and Liabilities

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

#### **Group**

#### **Year ended 31 December 2010**

	<b>Within 1 year</b> <b>US\$000</b>	<b>1-2 years</b> <b>US\$000</b>	<b>2-5 years</b> <b>US\$000</b>	<b>Total</b> <b>US\$000</b>
Fixed rate				
Short-term deposits	21,000	-	-	21,000
Long-term financial assets	1,431	-	-	<u>1,431</u>
				<u>22,431</u>

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Floating rate				
Cash	9,002	-	-	9,002
Bank loans	(11,671)	-	-	(11,671)
				<u>(2,669)</u>

**Year ended 31 December 2009**

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Fixed rate				
Short-term deposits	16,300	-	-	16,300
Long-term financial assets	1,500	-	-	1,500
				<u>17,800</u>

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Floating rate				
Cash	2,112	-	-	2,112
Bank loans	(46,447)	-	(24,371)	(70,818)
				<u>(68,706)</u>

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

Increase/decrease in interest rate	Effect on (loss)	Effect on profit
	before tax	before tax
	2010	2009
	US\$000	US\$000
+0.75%	125	345
-0.75%	(125)	(345)

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

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

**Company**

**Year ended 31 December 2010**

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Fixed rate				
Short-term deposits	21,000	-	-	21,000
Short-term financial assets	1,431	-	-	1,431
				<u>22,431</u>

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Floating rate				
Cash	5,696	-	-	5,696
Bank loans	(11,671)	-	-	(11,671)
				<u>(5,975)</u>

# **Year ended 31 December 2009**

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Fixed rate				
Short-term deposits	16,300	-	-	16,300
Long-term financial assets	1,500	-	-	1,500
				<u>17,800</u>
	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Floating rate				
Cash	622	-	-	622
Bank loans	(46,447)	-	(24,371)	(70,818)
				<u>(70,196)</u>

## Credit risk

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

## Foreign currency risk

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

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Cash and cash equivalents				
Pounds sterling	602	543	64	192
Canadian dollars	21	48	17	1
Norwegian kroner	253	283	-	-
Singapore dollars	67	69	-	-
Indonesian rupiah	53	61	-	-
Euros	36	121	-	-
Accounts receivable				
Pounds sterling	1,669	1,196	65	117
Trade payables:				
Pounds sterling	1,830	3,619	185	221
Canadian dollars	184	5	184	5
Euros	31	240	23	222

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

	Effect on (loss) before tax	Effect on profit before tax
Increase/decrease in foreign exchange rate	2010 US\$000	2009 US\$000
10% strengthening of US\$ against £GBP	(45)	289
10% weakening of US\$ against £GBP	45	(289)

#### Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments. The Group monitors its risk to a potential shortage funds by monitoring the maturity dates of existing debt. Calculations in the table below use interest rates on variable rate loans based on a forward curve. The liability shown is the amount due as at 31 December 2010 gross of associated unamortised financing costs

<b>Year ended 31 December 2010</b>	Within 1 year US\$000	1 to 2 years US\$000	2 to 5 years US\$000	Total US\$000
Interest bearing bank loans	11,800	-	-	11,800
Trade and other payables	13,574	-	-	13,574

<b>Year ended 31 December 2009</b>	Within 1 Year US\$000	1 to 2 years US\$000	2 to 5 years US\$000	Total US\$000
Interest bearing bank loans	47,550	-	24,950	72,500
Trade and other payables	9,231	-	-	9,231

#### Commodity price risk

During 2009 and 2010, all of the Group's gas production was sold at fixed contracted prices.

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



### Fair values of financial assets and liabilities

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

Group	Book value		Fair value	
	2010	2009	2010	2009
	US\$000	US\$000	US\$000	US\$000
<i>Financial assets</i>				
Cash and deposits	30,002	18,412	30,002	18,412
Financial assets	1,431	1,500	1,431	1,500
Trade and other receivables *	13,819	104,760	13,819	104,760
<i>Financial liabilities</i>				
Trade and other payables *	(13,574)	(9,231)	(13,574)	(9,231)
Bank loans *	(11,671)	(70,818)	(11,671)	(70,818)

Company	Book value		Fair value	
	2010	2009	2010	2009
	US\$000	US\$000	US\$000	US\$000
<i>Financial assets</i>				
Cash and deposits	26,696	16,922	26,696	16,922
Financial assets	1,431	1,500	1,431	1,500
Trade and other receivables *	122,869	210,950	122,869	210,950
<i>Financial liabilities</i>				
Trade and other payables *	(939)	(6,569)	(939)	(6,569)
Bank loans *	(11,671)	(70,818)	(11,671)	(70,818)

\* - at amortised cost

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

### Capital management

The primary objective of the Group's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration and development expenditure, and to safeguard the entity's ability to continue as a going concern and create shareholder value. At 31 December 2010, capital employed of the Group amounted to US\$141.7 million (comprised of US\$130.0 million of equity shareholders' funds and US\$11.7 million of borrowings), compared to US\$243.8 million at 31 December 2009 (comprised of US\$173.0 million of equity shareholders' funds and US\$70.8 million of borrowings).

At 31 December 2010, capital employed of the Company amounted to US\$162.3 million (comprised of US\$150.6 million of equity shareholders' funds and US\$11.7 million of borrowings), compared to US\$354.2 million at 31 December 2009 (comprised of US\$283.4 million of equity shareholders' funds and US\$70.8 million of borrowings).

## 27. Equity Share Capital

	2010 Number	2010 US\$000	2009 Number	2009 US\$000
<b>Authorised:</b>				
Ordinary shares of US\$0.10	350,000,000	35,000	350,000,000	35,000
Ordinary 'A' share of £50,000	1	90	1	90
	<u>350,000,001</u>	<u>35,090</u>	<u>350,000,001</u>	<u>35,090</u>

On incorporation, the authorised share capital of the Company was £50,000 and US\$20,000,000 divided into one 'A' share of £50,000 and 200,000,000 ordinary shares of US\$0.10 each, two of which were issued credited as fully paid to the subscribers to the Company's memorandum of association. The ordinary 'A' share has no special rights. In January 2008 the authorised ordinary share capital was increased from 200,000,000 ordinary shares to 250,000,000 ordinary shares of US\$0.10.

In June 2009 the authorised ordinary share capital was increased from 250,000,000 ordinary shares to 350,000,000 ordinary shares of US\$0.10

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

<b>Allotted, issued and fully paid:</b>		Share capital	Share premium	Total
<b>Group</b>	Number	US\$000	US\$000	Share capital US\$000
As at 1 January 2009 and as at 31 December 2009	176,518,311	17,742	189,891	207,633
Options exercised (i)	52,000	5	19	24
As at 31 December 2010	<u>176,570,311</u>	<u>17,747</u>	<u>189,910</u>	<u>207,657</u>

<b>Allotted, issued and fully paid:</b>		Share capital	Share premium	Total
<b>Company</b>	Number	US\$000	US\$000	Share US\$000
As at 1 January 2009 and as at 31 December 2009	176,518,311	17,742	154,619	172,361
Options exercised (i)	52,000	5	19	24
As at 31 December 2010	<u>176,570,311</u>	<u>17,747</u>	<u>154,638</u>	<u>172,385</u>

- i) In April 2010, 52,000 share options were converted to ordinary shares at a price of £0.32.

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

## 28. Additional Cash Flow Information

### Analysis of Group net cash

	1 January 2010 US\$000	Cash flow US\$000	Non-cash movements US\$000	31 December 2010 US\$000
Cash	2,112	6,922	(32)	9,002
Short-term deposits	16,300	4,745	(45)	21,000
	<u>18,412</u>	<u>11,667</u>	<u>(77)</u>	<u>30,002</u>

### Analysis of Company net cash

	1 January 2010 US\$000	Cash flow US\$000	Non-cash movements US\$000	31 December 2010 US\$000
Cash	622	5,084	(10)	5,696
Short-term deposits	16,300	4,735	(35)	21,000
	<u>16,922</u>	<u>9,819</u>	<u>(45)</u>	<u>26,696</u>

## 29. Share-Based Payments

### Share Option Plans

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

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

As at 31 December 2010, the Company has granted 13,937,500 options under the Serica 2005 Option Plan, 12,864,500 of which are currently outstanding. The Serica 2005 Option Plan will govern all future grants of options by the Company to Directors, officers, key employees and certain consultants of the Group.

The Serica 2005 Option Plan is comprised of two parts, the basic share option plan and a part which constitutes an Enterprise Management Incentive Plan ("EMI Plan") under rules set out by the H M. Revenue & Customs in the United Kingdom. Options granted under the Serica 2005 Option Plan can be granted, at the discretion of the Board, under one or other of the two parts but, apart from certain tax benefits which can accrue to the

Company and its UK employees if options are granted under the part relating to the EMI Plan meeting the conditions of that part of the Serica 2005 Option Plan, all other terms under which options can be awarded under either part are substantially identical.

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

5,195,000 of the 12,864,500 options currently outstanding under the Serica 2005 Option Plan are exercisable only if certain performance targets being met. These include the following options subject to market conditions; 220,000 options awarded to executive directors in December 2005, 1,200,000 options awarded to non-executive directors in August 2007, 850,000 options awarded to executive directors in March 2008 and 2,175,000 options awarded to executive directors in January 2010. In October 2008, 750,000 options were awarded to an executive director exercisable only if certain operational performance targets are met.

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain market conditions) to estimate the fair value of share options at the date of grant. There are no cash settlement alternatives. The estimated fair value of options is amortised to expense over the options' vesting period. US\$1,231,000 has been charged to the income statement in the year ended 31 December 2010 (2009 – US\$1,687,000) and a similar amount credited to other reserves. Of this total charge US\$426,000, (2009 – US\$433,000) was in respect of key management personnel (defined in note 9). The total 2010 charge of US\$1,231,000 includes an amount of US\$236,000 in respect of the modification in December 2009 of certain options whose exercise period was extended by five years, and US\$42,000 in respect of the modification in November 2010 of original EMI Plan options whose exercise period was also extended by five years.

The assumptions made for the options granted during 2005, 2006 and 2007 and March 2008 include a weighted average risk-free interest rate of 6%, no dividend yield and a weighted average expected life of options of three years. The volatility factor of expected market price of 50% used for options granted during 2005 and 2006 was reduced to 40% for options granted in 2007 and March 2008. The assumptions made for the options granted in October 2008 and January 2009 include a weighted average risk-free interest rate of 4%, no dividend yield, a weighted average expected life of options of three years and a volatility factor of expected market price of 50%. The modification of options in December 2009 and November 2010, and the options granted in January 2010 were consistently valued in line with the Company's valuation policy, assumptions made included a weighted average risk-free interest rate of 3%, no dividend yield, a weighted average expected life of three years, and a volatility factor of 50%. The weighted fair value of options granted during the year was £0.29 (2009:£0.15).

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

<b>Serica BVI option plan</b>	<b>2010 Number</b>	<b>2010 WAEPS Cdn\$</b>	<b>2009 Number</b>	<b>2009 WAEPS Cdn\$</b>
Outstanding as at 1 January	1,975,000	1.45	2,322,500	1.53
Expired during the year	(75,000)	1.00	(347,500)	2.00
Outstanding as at 31 December	1,900,000	1.46	1,975,000	1.45
Exercisable as at 31 December	1,900,000	1.46	1,975,000	1.45

<b>Serica 2005 option plan</b>		<b>£</b>		<b>£</b>	
Outstanding as at 1 January	8,672,000	0.82	8,479,000	0.87	
Granted during the year	4,453,500	0.67	750,000	0.32	
Exercised during the year	(52,000)	0.32	-	-	
Cancelled during the year	(209,000)	0.88	(557,000)	0.87	
Outstanding as at 31 December	<u>12,864,500</u>	<u>0.78</u>	<u>8,672,000</u>	<u>0.82</u>	
Exercisable as at 31 December	6,963,333	0.89	6,387,812	0.90	

The weighted average share price at the date of exercise for the options exercised in 2010 is £0.90.

For the Serica BVI option plan, the exercise price for outstanding options at the 2010 year end ranges from Cdn\$1.00 to Cdn\$2.00 (2009: Cdn\$1.00 to Cdn\$2.00). For the Serica 2005 option plan, the exercise price for outstanding options at the 2010 year end ranges from £0.32 to £1.12 (2009: £0.32 to £1.12).

### 30. Commitments under Operating Leases

#### Operating lease agreements where the Group is lessee

At 31 December 2010 the Group has entered into commercial leases in respect of rental of office premises and office equipment.

Future minimum rentals payable under non-cancellable operating leases are as follows

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Not later than one year	70	148	-	-
After one year but not more than five years	539	-	-	-
	<u>609</u>	<u>148</u>	<u>-</u>	<u>-</u>

### 31. Capital Commitments and Contingencies

At 31 December 2010, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation assets amounted to US\$nil million for the Group and US\$nil for the Company (2009 US\$6.7 million and US\$nil respectively).

The Group 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. As at 31 December 2010, the Group anticipates it will discharge its minimum financial obligations as follows:

Year ending 31 December 2011 US\$11,250,000  
Year ending 31 December 2012 US\$nil

These obligations reflect the Group's share of interests in the defined work programmes and are not formally contracted at 31 December 2010. The Group is not obliged to meet other joint venture partner shares of these programmes.

The Group has to provide security for a proportion of its future obligations to defined work programmes or other commitments and fulfils this obligation through the Company providing US\$1.4 million of cash collateral included as a financial asset (restricted cash) as at 31 December 2010 (2009: US\$1.5 million).

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

### **32. Related Party Transactions and Transactions with Directors**

There are no related party transactions, or transactions with Directors that require disclosure except for the remuneration items disclosed in the Directors Report and note 9 above. These disclosures include the compensation of key management personnel

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

### **33. Post Balance Sheet Events**

On 23 March 2011 the UK Government announced a change in North Sea taxation with an increase in the Supplementary Charge from 20% to 32%, which may affect some UK offshore developments.

## Group Proved plus Probable Reserves – Unaudited

	Western Europe		Indonesia		Total	Total	Total
	Oil	Gas	Oil	Gas	Oil	Gas	Oil & gas
	mmbbl	bcf	mmbbl	bcf	mmbbl	bcf	mmboe
At 1 January 2010	2.4	38.7	2.9	32.7	5.3	71.4	18.6
Revisions	(0.6)	(11.9)	(2.0)	(22.7)	(2.6)	(34.6)	(9.4)
Production	-	-	(0.3)	(3.0)	(0.3)	(3.0)	(0.9)
At 31 December 2010	1.8	26.8	0.6	7.0	2.4	33.8	8.3
Proved developed	-	-	0.5	5.4	0.5	5.4	1.6
Proved undeveloped	1.0	14.8	-	-	1.0	14.8	3.5
Probable developed	-	-	0.1	1.6	0.1	1.6	0.4
Probable undeveloped	0.8	12.0	-	-	0.8	12.0	2.8
At 31 December 2010	1.8	26.8	0.6	7.0	2.4	33.8	8.3

Proved and probable reserves are based on independent reports prepared by consultants RPS Energy (for the Kambuna Field in Indonesia) and Netherland, Sewell & Associates (for the Columbus Field in the UK North Sea) in accordance with the reserve definitions of the Canadian Oil and Gas Evaluation Handbook. Gas reserves at 31 December 2010 have been converted to barrels of oil equivalent using a factor of 6.0 bcf per mmboe for Western Europe (Columbus field reserves) on the basis of a nominal gas calorific value of 1,000 BTU per cubic foot and using a factor of 4.8 bcf per mmboe for Indonesia (Kambuna field reserves) on the basis of a nominal gas calorific value of 1,240 BTU per cubic foot.

### Kambuna entitlement reserves

The Group provides for amortisation of costs relating to evaluated properties based on direct interests on an entitlement basis, which incorporates the terms of Production Sharing Contracts in Indonesia. For Kambuna alone, proved plus probable reserves on an entitlement basis totalled 1.51 mmboe as at 31 December 2010 (2009: 6.0 mmboe). This was calculated in 2010 using a Kambuna forecast condensate price assumption of Brent + \$2.29 (2009: Brent - 0.18%) and gas prices in accordance with known contract terms.