SERINUS ENERGY INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
US dollars in 000's

Serinus Energy Inc.
Condensed Consolidated Statement of Financial Position
(Stated in thousands of US dollars, except share and per share data)
(Unaudited)

		September 30, 2014	December 31, 2013
Assets			
Current			
Cash and cash equivalents	(Note 1)	$ 27,153	$ 19,916
Accounts receivable		10,476	6,806
Income taxes receivable		1,906	-
Prepaids and other		4,045	7,605
Crude oil inventory		-	1,296
Restricted cash		1,621	1,416
Total current assets		45,201	37,039
Investments		146	155
Property, plant and equipment	(Note 4)	248,386	263,445
Exploration and evaluation	(Note 5)	13,329	11,834
Total Assets		$ 307,062	$ 312,473
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 37,920	$ 33,111
Income taxes payable		120	4,825
Convertible note payable	(Note 7)	-	15,000
Current portion of long-term debt	(Note 8)	7,419	4,026
Asset retirement obligation		3,209	3,209
Total current liabilities		48,668	60,171
Asset retirement obligation		26,231	25,780
Other provisions		1,148	1,148
Deferred tax liability		48,997	46,800
Long-term debt	(Note 8)	26,009	8,030
Total liabilities		151,053	141,929
Shareholders' Equity			
Share capital	(Note 9)	$ 344,479	$ 344,403
Contributed surplus		20,441	18,062
Accumulated other comprehensive loss		(19,430)	(269)
Non-controlling interest		23,746	32,369
Deficit		(213,227)	(224,021)
Total shareholders' equity		156,009	170,544
Total liabilities and shareholders' equity		$ 307,062	$ 312,473
Commitments	(Note 11)		

"Signed"
MICHAEL A. McVEA, DIRECTOR,
CHAIR OF THE AUDIT COMMITTEE

"Signed"
TIMOTHY M. ELLIOTT, DIRECTOR,
PRESIDENT AND CEO

Serinus Energy Inc.
Condensed Consolidated Interim Statement of Operations and Comprehensive Earnings/(Loss)
(Stated in thousands of US dollars, except share and per share data)
(Unaudited)

		Three months ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Oil and gas revenue		$ 46,407	$ 45,394	$ 123,905	$ 103,032
Royalty expense		(16,326)	(9,741)	(32,334)	(24,715)
Oil and gas revenue, net of royalties		30,081	35,653	91,571	78,317
Operating expenses					
Production expenses		(6,309)	(2,539)	(19,548)	(13,348)
General and administrative		(3,403)	(4,265)	(7,809)	(9,642)
Transaction costs		59	(949)	(1,441)	(3,404)
Stock based compensation	(Note 9(d))	(685)	(393)	(2,402)	(831)
Gain on disposition of assets		19	-	126	-
Depletion and depreciation	(Note 4)	(8,141)	(8,687)	(24,292)	(18,838)
Impairment of exploration and evaluation assets	(Note 6)	-	-	(337)	-
Total operating expenses		(18,460)	(16,833)	(55,703)	(46,063)
Finance income/(costs)					
Interest and other income		1,990	(875)	2,338	(430)
Unrealized loss on investments		(77)	-	(8)	(100)
Interest expense and accretion		(696)	(1,053)	(3,731)	(3,437)
Foreign exchange gain (loss)	(Note 10)	(2,308)	120	(6,825)	(162)
Net finance costs		(1,091)	(1,808)	(8,226)	(4,129)
Earnings before tax		10,530	17,012	27,642	28,125
Current tax expense		(1,646)	(4,928)	(6,147)	(8,713)
Deferred tax expense		(2,333)	(122)	(3,477)	(35)
Net earnings		6,551	11,962	18,018	19,377
Other comprehensive loss					
Items that may be reclassified to profit or loss					
Foreign currency translation loss of foreign operations	(Note 10)	(6,487)	(137)	(27,373)	(137)
Total comprehensive earnings/(loss)		$ 64	$ 11,825	$ (9,355)	$ 19,240
Earnings attributable to:					
Common shareholders		3,793	8,147	10,794	11,058
Non-controlling interest		2,758	3,815	7,224	8,319
Earnings for the period		$ 6,551	$ 11,962	$ 18,018	$ 19,377
Earnings per share attributable to common shareholders					
- basic and dilutive	(Note 9(c))	$ 0.05	$ 0.10	$ 0.14	$ 0.19
Total comprehensive earnings (loss) attributed to:					
Common shareholders		(747)	8,010	(8,367)	10,921
Non-controlling interest		811	3,815	(988)	8,319
Total comprehensive (loss)/earnings for the period		$ 64	$ 11,825	$ (9,355)	$ 19,240

Serinus Energy Inc.
Condensed Consolidated Statement of Cash Flows
(Stated in thousands of US dollars, except share and per share data)
(Unaudited)

		Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Net Earnings		$ 6,551	$ 11,962	$ 18,018	$ 19,377
Items not involving cash:					
Depletion and depreciation	(Note 4)	8,141	8,687	24,292	18,838
Impairment	(Note 6)	-	-	337	-
Interest on debt settled in shares		-	-	-	783
Accretion on asset retirement obligation		(8)	300	419	323
Stock based compensation	(Note 9(d))	685	393	2,402	831
Unrealized loss on investments		77	-	8	100
Unrealized foreign exchange loss	(Note 10)	1,402	96	5,934	162
Deferred tax expense		2,333	122	3,477	35
		19,181	21,560	54,887	40,449
Changes in non-cash working capital		10,192	382	8,013	717
		29,373	21,942	62,900	41,166
Financing:					
Issuance of long-term debt, net of issuance costs		14,871	-	24,871	-
Repayment of long-term debt		(9,663)	(2,452)	(18,531)	(14,222)
Dividends paid to non-controlling interest		(3,540)	(1,499)	(7,635)	(6,899)
Issuance of convertible debt		-	-	-	12,000
Issuance of shares		-	-	53	-
Changes in non-cash working capital related to financing		3	448	-	448
		1,671	(3,503)	(1,242)	(8,673)
Investing:					
Property and equipment expenditures		(13,725)	(11,407)	(35,617)	(19,646)
Restricted cash recovered		-	-	-	143
Exploration and evaluation expenditures		(1,828)	(19,060)	(6,246)	(30,874)
Business acquisition cash acquired		-	-	-	2,330
Changes in non-cash working capital related to investing		-	13,537	(9,146)	763
		(15,553)	(16,930)	(51,009)	(47,284)
Effect of exchange rate changes on cash		(4,057)	(137)	(3,412)	(137)
Change in cash		11,434	1,372	7,237	(14,928)
Cash and cash equivalents, beginning of period		15,719	19,253	19,916	35,553
Cash and cash equivalents, end of period		$ 27,153	$ 20,625	$ 27,153	$ 20,625
Supplemental cash flow information					
Interest paid		$ (2,274)	$ (3,930)	$ (4,386)	$ (4,725)
Interest received		$ 87	$ 112	$ 172	$ 509
Cash taxes paid		$ (6,368)	$ (3,096)	$ (13,162)	$ (10,679)

Serinus Energy Inc.
Condensed Consolidated Interim Statement of Changes in Equity
(Stated in thousands of US dollars, except share and per share data)
(Unaudited)

	Common Shares						
	Number of shares (1)	Amount	Contributed surplus	Cumulative translation adjustment	Non-controlling interest	Deficit	Total
Balances, December 31, 2012	48,175,673	$ 231,516	$ 15,135	$ 742	$ 31,396	$ (155,339)	$ 123,450
Issued on conversion of convertible debt	3,183,268	13,369	-	-	-	-	13,369
Issued on acquisition of Winstar	27,252,500	99,518	-	-	-	-	99,518
Stock-based compensation	-	-	831	-	-	-	831
Foreign currency translation adjustment on foreign operations	-	-		(137)	-	-	(137)
Dividends declared to non-controlling interest	-	-	-	-	(6,900)	-	(6,900)
Net earnings	-	-	-	-	8,319	11,058	19,377
Balances, September 30, 2013	78,611,441	$ 344,403	$ 15,966	$ 605	$ 32,815	$ (144,281)	$ 249,508
Balances, December 31, 2013	78,611,441	$ 344,403	$ 18,062	$ (269)	$ 32,369	$ (224,021)	$ 170,544
Issued on exercise of stock options	18,500	76	(23)	-	-	-	53
Stock-based compensation	-	-	2,402	-	-	-	2,402
Foreign currency translation adjustment on foreign operations	-	-		(19,161)	(8,212)	-	(27,373)
Dividends declared to non-controlling interest	-	-	-	-	(7,635)	-	(7,635)
Net earnings	-	-	-	-	7,224	10,794	18,018
Balances, September 30, 2014	78,629,941	$ 344,479	$ 20,441	$ (19,430)	$ 23,746	$ (213,227)	$ 156,009

(1) Reflects the share consolidation on the basis of one post consolidation share for every ten pre-consolidation shares

1. Reporting entity

Serinus Energy Inc. ("Serinus" or "the Company") is a publicly listed company whose common shares are traded on the Toronto Stock Exchange ("TSX") under the symbol "SEN" and the Warsaw Stock Exchange ("WSE"). The Company was incorporated under the Business Corporations Act (Alberta) and is headquartered at 1500, 700- 4th Avenue SW Calgary, Alberta, T2P3J4 Canada.

Kulczyk Investments, S.A. ("KI") holds a 50.8% investment in Serinus Energy Inc. and is the ultimate parent of Serinus Energy Inc.

The consolidated financial statements of the Company include the accounts of Serinus and its subsidiaries together with its investments in certain companies. The Company is principally engaged in the exploration for and development of oil and gas properties in Ukraine, Tunisia, Brunei and Romania. The Company conducts many of its activities jointly with other companies; and these financial statements reflect only the Company's proportionate interest in such activities except for operations in Ukraine, which are consolidated due to the Company holding a 70% controlling ownership interest in KUB-Gas LLC ("KUB-Gas"), a Ukrainian company.

The Company's interest in KUB-Gas is held through its 70% shareholding in KUB-Gas Holdings Limited ("KUB Holdings") and consolidates the results of KUB Holdings and KUB-Gas into its financial statements, and in doing so, reports 100% of the revenues, royalties and production expenses for KUB Holdings and KUB-Gas within its Statements of Operations and Cash Flow. Similarly, the Company reports 100% of the assets and liabilities of KUB Holdings and KUB-Gas on its consolidated statement of financial position. The 30% share of the net assets of KUB Holdings and KUB-Gas attributable to the minority shareholder is then presented as "non-controlling interest" within shareholders' equity on the statement of financial position. Net earnings and comprehensive earnings (loss) for the period are presented to show the allocation between the Company's 70% shareholdings and the non-controlling 30% shareholder's interest.

Ukraine's political and economic situation has deteriorated significantly since the government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest, which escalated into violent conflicts in February 2014, resulted in the removal of the president and change of the government and heads of key governing bodies. The crisis further escalated and fighting continued in the eastern part of Ukraine. The United States and European Union declared sanctions against selected Russian individuals and companies at various stages of the conflict and international pressure on Russia to de-escalate the crisis further increased when Malaysian Airlines flight MH17 was shot down over the separatist-controlled territory on July 17, killing all 298 people on board. Tougher sanctions against Russia were implemented as a result of these developments. On September 5, 2014 and September 22, 2014, Ukraine and pro-Russian rebels signed ceasefire agreements. Since the truce agreements have been made, the level of violence has been lower, but sporadic fighting continues, particularly in the area surrounding the Donetsk airport.

Recent events led to a deepening of the ongoing economic crisis, widening of the state budget deficit, depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following significant devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions. The Ukrainian interim government approached international lenders with the request to provide financing in order to stabilize the country's macroeconomic situation. On April 30, 2014 the International Monetary Fund committed to a $17 billion two-year aid program to help the country's economic recovery. On May 25, Mr. Petro Poroshenko was elected President and sworn into office on June 7. On June 27, he signed the agreement with the European Union, reducing import tariffs among the signatory countries and committing Ukraine to an ambitious programme of political and economic reform. In the long term, the agreement is expected to bring a boost to Ukrainian economy and improve Ukraine's business climate. However, the country will be required to introduce wide-ranging changes that will initially cause disruption as Ukrainian businesses struggle to make the change.

Effective August 1, 2014, the Ukrainian Parliament and President approved to increase natural gas and condensate royalties to 55% and 45% respectively, from their previous levels of 28% and 42%, lasting until January 1, 2015. Unless subsequently renewed or extended, royalties will then revert back to previous levels (i.e. 28% and 42%). The new law also contains provisions for a "lowering coefficient" on new gas wells drilled after August 1, 2014. This reduces the royalties paid on production from those new wells to 55% of the nominal rate for a period of two years (i.e. the effective gas royalty rate for new wells will be 30.25%). In addition, the tax base used to calculate royalties will not be the average customs value of imported gas, as it is now, but the price level for natural gas sold to industrial consumers, which is set by the National Electricity Regulatory Commission of Ukraine.

On September 22, 2014, the National Bank of Ukraine announced Resolution No.591, which prohibits several types of foreign exchange transactions, including the ability of KUB-Gas to pay dividends to shareholders. These restrictions are in force from September 23, 2014 until December 2, 2014. As of September 30, 2014, KUB-Gas had $6.85 million of cash on hand.

To date there has been limited impact on the Company's Ukrainian operations, however, in the second and third quarter of 2014, the Company put developmental field operations in Ukraine on hold pending improvement in the security situation. Production continued, but drilling, workover, stimulation and construction activities ceased. On October 2, 2014, the Company announced that the security situation had improved in and around the Makeevskoye, Olgovskoye and North Makeevskoye licenses and the Company resumed drilling activity in the Makeevskoye license with the spud of the M-22 well.

Whilst management believes it is taking appropriate measures to support the sustainability of the KUB-Gas' business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Company's results and financial position in a manner not currently determinable.

Dividends

To date, the Company has not paid a dividend and does not anticipate paying dividends in the foreseeable future. Should the Company decide to pay dividends in the future, the Company would be required to satisfy certain liquidity tests as established in the Alberta Business Corporations Act.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all the information required for full annual financial statements.

These condensed consolidated financial statements were authorised for issuance by the Company's Board of Directors on November 12, 2014.

(b) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions based on currently available information that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are evaluated and are based on managements' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from these estimates. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements are described in note 2(d) to the consolidated financial statements for the year ended December 31, 2013.

(c) Significant accounting policies

The condensed consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as described in note 3 to the consolidated financial statement for the year ended December 31, 2013, except as highlighted in note 2(d).

(d) Adoption of new accounting pronouncements

On January 1, 2014, the Company adopted the amendment to IAS 36. This amendment requires entities to disclose the recoverable amount of an impaired Cash Generating Unit ("CGU") if the amount is based on fair value less costs of disposal. Adoption of the amendment had no impact to the consolidated financial statements.

(Stated in thousands of US dollars, except share and per share data)

(e) Pending changes in accounting policies

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for fiscal years ending on or after December 31, 2017. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

On July 24, 2014 the IASB issued IFRS 9 *Financial Instruments*. The package of improvements introduced by IFRS 9 includes a revised model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The new Standard will come into effect on January 1, 2018 with early application permitted. The extent of the impact of adoption of the standard has not yet been determined.

3. Fair value measurements

Investments are recorded at fair value based on the quoted market prices for the shares (level 1 fair value). The fair value of the long-term debt approximates the carrying amount as interest rates and credit spreads applicable to the Company have not changed significantly since the credit facility was established (level 2 fair value).

The fair value of employee stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information and peer comparisons), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

4. Property, plant and equipment

	Oil and gas interests	Plant and equipment	Other	Total
Cost or deemed cost:				
Balance at December 31, 2013	$ 303,501	$ 21,082	$ 4,664	$ 329,247
Additions	31,979	3,791	761	36,531
Foreign currency translation adjustment	(29,063)	(8,158)	(3,388)	(40,609)
Balance at September 30, 2014	$ 306,417	$ 16,715	$ 2,037	$ 325,169
Depletion and depreciation:				
Balance at December 31, 2013	$ (59,754)	$ (4,186)	$ (1,862)	$ (65,802)
Depletion and depreciation	(23,062)	(941)	(289)	(24,292)
Depreciation capitalized	-	(686)	-	(686)
Foreign currency translation adjustment	11,592	2,117	288	13,997
Balance at September 30, 2014	$ (71,224)	$ (3,696)	$ (1,863)	$ (76,783)
Net book value:				
Balance at December 31, 2013	$ 243,747	$ 16,896	$ 2,802	$ 263,445
Balance at September 30, 2014	$ 235,193	$ 13,019	$ 174	$ 248,386

(Stated in thousands of US dollars, except share and per share data)

5. Exploration and evaluation assets

	As at September 30, 2014	As at December 31, 2013
Carrying amount, beginning of the year	$ 11,834	$ 47,358
Additions	6,246	47,547
Acquisition of Winstar	-	100
Impairment on Block L, Brunei (note 6)	(337)	(83,053)
Cumulative translation adjustment	(4,414)	(118)
Carrying amount, end of the period	$ 13,329	$ 11,834

E&E assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves**.** Additions represent the Company's share of costs incurred on E&E assets during the period. The following is a breakdown of the carrying amount of the E&E assets:

	As at September 30, 2014	As at December 31, 2013
Ukraine	5,230	10,947
Romania	8,099	887
	$ 13,329	$ 11,834

6. Impairment

Brunei – Block L

The production sharing agreement ("PSA") with Brunei National Petroleum Company Sendirian Berhand was set to expire on August 27, 2013. Prior to exploration, the PSA was extended for three months and the new date for completion of the minimum work obligations for phase 2 of the exploration period was November 27, 2013. Phase 2 of the exploration automatically extended past November 27, 2013, to allow the completion of the drilling of the well and in the event the Company decides to appraise a discovery, the term of the exploration period is further extended to allow for the implementation of the appraisal program. After encountering operational difficulties during the phase 2 work commitments, the Company suspended further drilling activities. Due to the results of the wells drilled, the Company determined that an indicator of impairment existed at December 31, 2013 and management performed an impairment test. The future cashflows of Block L are uncertain with no proved or probable reserves assigned; therefore the Company determined that as of December 31, 2013, the Block L CGU was impaired by the full amount spent to date and impairment of $83.0 million was recorded. A further impairment of $0.3 million was recorded for the period ended September 30, 2014.

7. Convertible note payable

Dutco loan

	Face Value	Liability
Balance December 31, 2013	$ 15,000	$ 15,000
Repayment	(15,000)	(15,000)
Balance September 30, 2014	$ -	$ -

In July 2013, the Company entered into a credit facility agreement with Dutco to borrow up to $15 million to be used to fund drilling in Brunei (the "Dutco Credit Facility").

The term of the Dutco Credit Facility was 12 months with interest calculated on outstanding amounts at a rate of 12% per annum and paid monthly. As at September 30, 2014, the Company has made repayments totalling $15 million in final settlement of the facility.

(Stated in thousands of US dollars, except share and per share data)

8. Long-term debt

(a) Ukraine funding

	As at September 30, 2014	As at December 31, 2013
Current portion of long-term debt	$ 4,086	$ 4,026
Long-term debt	81	3,640
Total debt	$ 4,167	$ 7,666

On May 20, 2011, KUB-Gas finalized a $40.0 million loan agreement with the European Bank for Reconstruction and Development ("EBRD"). The loan is denominated in US dollars and consisted of two tranches that had to be drawn within a commitment period of two years from the date of signing the loan agreement. A total of $23 million was drawn on this loan, and the loan is to be repaid in 13 equal semi-annual instalments with the first payment made on July 15, 2012. In January 2014, a scheduled repayment of $1.8 million was made. In July, 2014, a further scheduled repayment of $1.8 million was made, leaving $4.2 million outstanding.

Interest expense on the EBRD debt has two interest rate components. One component is set at LIBOR + 6% and the other component is a variable rate based on revenue growth incremental to the base year 2010. The balance drawn has a weighted average effective interest rate of approximately 8.4% and a nominal rate of 6.4%. Interest payments are made twice a year, in January and in July.

The loan is secured by pledges on certain tangible assets in Ukraine as well as on future revenues earned in Ukraine. The debt is fully guaranteed by the Company through a parent company guarantee. At September 30, 2014, KUB-Gas was in compliance with all debt covenants. The terms and conditions of the EBRD loan agreement limit the amount that KUB-Gas may pay as dividends or as repayment of loans to the Company. During the period the lending agreement was amended to remove a covenant for KUB-Gas to maintain a current ratio of 1:1 as well as provide consent for KUB-Gas to repay all or portions of the debt due to its parent.

(b) Tunisia funding

On November 20, 2013, the Company finalized two loan agreements aggregating $60 million with EBRD. The Senior Loan is in the amount of USD $40 million and is available in two tranches of USD $20 million each. The Convertible Loan is in the amount of USD $20 million and can be converted into common shares of the Company.

Senior Loan

	As at September 30, 2014	As at December 31, 2013
Current portion of long-term debt	$ 3,333	$ -
Long-term debt	16,060	4,390
Total debt	$ 19,393	$ 4,390

Interest on the Senior Loan is payable semi-annually at a variable rate equal to the sum of the London UK interbank rate for a period equivalent to the interest payment period and 6%. At the Company's option, the interest rate may be fixed at the sum of 6% and the forward rate available to EBRD on the interest rate swap market. The Company fixed the interest rate on the first $20 million tranche at 6.9% for the two year period September 30, 2014 to September 30, 2016.

The Senior Loan is repayable in twelve equal semi-annual installments commencing after the first year of the loan. The second tranche of the Senior Loan is available only after the Convertible Loan is fully drawn, and is also subject to certain conditions including achieving and maintaining specified production targets for a period of three continuous months, and meeting specified financial and reserve coverage ratios.

(Stated in thousands of US dollars, except share and per share data)

Convertible Loan

	As at September 30, 2014	As at December 31, 2013
Long-term debt	$ 9,868	$ -
Total debt	$ 9,868	$ -

Interest on the Convertible Loan is calculated semi-annually at a variable rate that is the sum of a London interbank rate and a percentage calculated on the basis of incremental net revenues earned from the Tunisian assets, with a floor of 8% per annum and a ceiling of 17% per annum. Interest is accrued for payment on maturity of the Convertible Loan.

The convertible loan can be repaid at maturity in cash, or the Company or EBRD can elect to convert all or any portion of the principal and accrued interest outstanding for common shares.

Both loans have a term of seven years and are available to be drawn for a period of three years.

The loans are secured by the Tunisian assets, pledges of certain bank accounts plus the shares of the Company's subsidiaries through which the concessions are owned, plus the benefits arising from the Company's interests in insurance policies and on-lending arrangements within the Serinus group of companies.

Both loan agreements contain a number of affirmative covenants, including maintaining the specified security, environmental and social compliance, and maintenance of specified financial ratios. At September 30, 2014, the Company was in compliance with all debt covenants.

On December 30, 2013 the Company drew $5.0 million from Tranche 1 of the Senior Loan and $0.6 million of transaction costs were paid. As at September 30, 2014, the Company has drawn $20.0 million of the Senior Loan, $10.0 million of the Convertible Loan and incurred transaction costs of $0.9 million.

9. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. The preferred shares may be issued in one or more series, with rights and privileges as determined by the Board of Directors. There are no preferred shares issued.

(b) Issued

On February 13, 2014 the Company issued 18,500 shares related to the exercise of stock options and has a total of 78,629,941 shares outstanding at September 30, 2014.

(Stated in thousands of US dollars, except share and per share data)

(c) Earnings per share

	Three months ended Sept 30, 2014	Three months ended Sept 30, 2013	Nine months ended Sept 30, 2014	Nine months ended Sept 30, 2013
Net income attributable to common shareholders:				
Basic and diluted	$ 3,793	$ 8,147	$ 10,794	$ 11,058
Weighted average number of common shares outstanding:				
Basic	78,629,941	78,611,441	78,626,959	59,101,333
Potentially dilutive share-based compensation plans	1,561	-	1,270	-
Diluted	78,631,502	78,611,441	78,628,229	59,101,333
Earnings per share attributable to common shareholders:				
Basic and diluted	$ 0.05	$ 0.10	$ 0.14	$ 0.19

(d) Stock options

The Company has granted common share purchase options to officers, directors, employees and certain consultants with exercise prices equal to or greater than the fair value of the common shares on the grant date. Upon exercise, the options are settled in common shares issued from treasury. Each tranche of the share purchase options have a five year term and vest one-third immediately with the remaining two-thirds at one-third per year each on the anniversary of the grant date.

A summary of the changes to option plan during the nine period ended September 30, 2014, is presented below:

	USD denominated options		**CAD denominated options**	
	Number of Options	Weighted average exercise price per option (US$)	Number of Options	Weighted average exercise price per option (CAD$)
Balance, December 31, 2013	7,089,900	$ 4.69	-	$ -
Granted	248,000	$ 3.54	79,000	$ 2.66
Exercised	(18,500)	$ 2.85	-	$ -
Expired	(1,640,000)	$ 5.41	-	$ -
Balance, September 30, 2014	5,679,400	$ 4.39	79,000	$ 2.66

The following tables summarize information about the options outstanding as at September 30, 2014:

USD denominated options:

Exercise price (US$)	Outstanding	Exercisable	Weighted average contractual life remaining, years
$ 2.85 - $ 3.50	518,000	289,668	3.98
$ 3.51 - $ 4.00	1,365,400	1,365,400	1.71
$ 4.01 - $ 5.00	2,761,000	1,169,665	3.96
$ 5.01 - $ 6.20	1,035,000	1,035,000	0.71
$ 4.39	5,679,400	3,859,733	2.83

(Stated in thousands of US dollars, except share and per share data)

CAD denominated options:

Exercise price (CAD$)	Outstanding	Exercisable	Weighted average contractual life remaining, years
$ 1.56 - $ 2.50	12,000	4,000	4.88
$ 2.51 - $ 3.22	67,000	22,333	4.71
$ 2.66	79,000	26,333	4.74

(e) Stock Based Compensation expense

The weighted average inputs used in the Black-Scholes pricing model to determine the fair value of the options granted during the nine months ended September 30, 2014 include the following:

	USD Options	CAD Options
Weighted average fair value per option	$ 1.78 USD	$ 1.30 CAD
Exercise price	$ 3.54 USD	$ 2.59 USD
Volatility	65.9%	61.6%
Interest rate	1.49%	1.33%
Expected life (years)	4.00	4.62
Forfeiture rate	3.33%	3.33%
Dividends	Nil	Nil

10. Foreign currency translation

The financial statements are presented in U.S. dollars, which is the reporting currency of the Company. For the three and nine month period ended September 30, 2014, a foreign exchange loss of $2.3 million and $6.8 million is recorded in the income statement.

The financial statements of KUB-GAS use the Ukraine Hryvnia as its functional currency. As a result of a 13% and 62% deterioration of the Hryvnia versus the US dollar during the three and nine months ended September 2014, the translation of balances denominated in currencies other than Hryvnia at period end into Hryvnia resulted in a foreign exchange loss of $1.4 million and $5.9 million for the three and nine months ended September 30, 2014 (2013: $0.2 million and $0.4 million). This foreign exchange loss is recorded in the income statement.

On consolidation of KUB-GAS by the Company, the assets and liabilities of KUB-GAS are translated into U.S. dollars at exchange rates at the balance sheet date. Revenues and expenses of foreign operations are translated into U.S. dollars using foreign exchange rates that approximate those on the date of the underlying transaction. These translation gains and losses are included in accumulated other comprehensive income (loss), with a loss of $6.5 million and $27.4 million being recorded for the three and nine month period ended September 30, 2014. An appreciation in the exchange rate would have the opposite effect.

11. Commitments

The contractual obligations for which the Company is responsible are as follows:

	Within 1 Year	2-3 Years	4-5 Years	+5 Years	Total
Office Rental	$ 504	$ 943	$ 1,044	$ 1,137	$ 3,628
EBRD loan-Ukraine	4,086	81	-	-	4,167
EBRD loan-Tunisia	3,333	6,667	6,667	12,594	29,261
Total contractual obligations	$ 7,923	$ 7,691	$ 7,711	$ 13,731	$ 37,056

The Company's commitments are all in the ordinary course of business and include the work commitments for Brunei Block L, Ukraine, Tunisia and Romania.

Brunei Block L

The Block L PSA provides for an exploration period of six years from the date of the Block L PSA, August 27, 2006, divided into two phases, Phase 1 and Phase 2, each of which was initially for a period of three years, with Phase 2 due to expire on August 27, 2013. The Company received confirmation that its request to extend the PSA for three months had been granted and the new date for completing the minimum work obligations for Phase 2 of the exploration period was November 27, 2013. Phase 2 of the exploration period automatically extended to allow for the completion of the drilling of the well and to allow for the implementation of the appraisal program.

In August 2010, parties to the Block L PSA elected to proceed to the Phase 2 exploration period. The minimum work obligations for Phase 2 include i) acquire and process 130 square kilometres of onshore 3D seismic; ii) acquire and process 13.5 square kilometres of onshore 3D swath data; iii) acquire and process 13 kilometres of onshore 2D seismic, (iv) acquire and process not less than 34.5 square kilometres of onshore 3D seismic and (v) drill at least two onshore exploration wells, each to a minimum depth of 2,000 metres. The minimum spend commitment of $16 million for Phase 2 specified in the Brunei Block L PSA has been exceeded and the remaining work commitment was undertaken in 2013, with the first well drilled in October and the second in December.

After encountering operational difficulties during the phase 2 work commitments, the Company suspended further drilling activities and is currently evaluating its drilling campaign together with Petroleum Brunei.

Pursuant to an agreement reached to settle a legal challenge to the Company's title under the Block L PSA, the Company agreed to pay a maximum of $3.5 million out of 10% of its share of profit oil as defined in the Block L PSA. No amount has been accrued in the financial statements as there is not yet production from Block L.

Syria

Under the terms of the Block 9 PSC, the Company has a first phase exploration period of four years, originally expiring on November 27, 2011, during which it has committed to acquire and process 350 square kilometres of 3D seismic and drill two exploratory wells. The remaining work commitment outstanding is to drill two exploration wells. The Syrian authorities, subject to certain conditions, extended the term of the first exploration period under the Block 9 PSC to October 26, 2012. The drilling of the first of the two exploratory wells commenced on July 22, 2011 and was suspended in October 2011 due to unfavourable operating conditions in Syria.

Effective July 16, 2012, the Company, in its capacity as Operator of Syria's Block 9, declared a Force Majeure event due to conditions arising from the current instability, including difficult operating conditions and the inability to move funds into the country, rendering the performance of its obligations under the contract impossible. The Company will continue to monitor operating conditions in Syria to assess when a recommencement of its Syrian operations is possible.

Ukraine

The Company has an obligation to incur certain capital expenditures to comply with Ukrainian exploration licence requirements. Under these licence maintenance commitments, KUB-Gas is required to acquire and process seismic, conduct geophysical studies and drill exploratory wells on licenced fields. Although these commitments are not binding and may be modified based on results of exploration work, KUB-Gas' potential capital expenditures relating to qualifying activities on gas and gas condensate fields may reach $22.1 million during the period from 2014 to 2015 as part of the planned development program. Justified deviation from the capital expenditures committed is permitted and should be agreed with the licensor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the licence. In respect of the North Makeevskoye license, the Company expects to drill one well in 2015 with follow up wells based on test results.

Tunisia

The Tunisian state oil and gas company, Enterprise Tunisienne D'Activities Petroliers ("ETAP"), has the right to back into up to a 50% working interest in the Chouech Es Saida concession if, and when, the cumulative liquid hydrocarbon sales, net of royalties and shrinkage, from the concession exceeds 6.5 million barrels. As at September 30, 2014 cumulative liquid hydrocarbon sales net of royalties and shrinkage was 4.9 million barrels. Management is of the opinion that there are sufficient exploration and development opportunities which, if successful, could result in this provision being exercised within the next 10 years.

Romania

With the acquisition of Winstar, the Company acquired a 60% interest in the 2,949 square kilometer onshore Satu Mare exploration concession in north western Romania. In accordance with the terms of a farm-in agreement with Rompetrol, the Company must pay 100% of the concession's phase 1 and phase 2 work commitments. The joint venture has fulfilled 100% of the first stage of the work commitments under the concession agreement and has committed to a second phase of exploration. The second stage, which expires May 2015, includes the drilling of two exploration wells and the acquisition of 180 square km of 3D seismic. These expenditures are currently being incurred and will continue into early 2015.

12. Related party transactions

Nemmoco Petroleum Corporation ("Nemmoco"), a private company of which 37.5% is owned by Timothy M. Elliott, an officer and director of the Company, provides certain personnel and general, accounting and administrative services to the Company at its offices in Dubai on a cost-sharing basis. For the three and nine months ended September 30, 2014, the fees totalled $0.2 and $0.6 million, respectively (2013 - $0.2 million and $0.5 million). At September 30, 2014, $138 thousand was owed to Nemmoco (December 31, 2013 - $23 thousand).

Loon Energy Corporation ("Loon Energy"), a publicly traded Canadian corporation, has no employees. Management and administrative services are provided by the management and staff of Serinus. For the three and nine months ended September 30, 2014, these fees totaled $3 thousand and $8 thousand (2013 - $3 thousand and $9 thousand). At September 30, 2014, Loon Energy owed $nil (December 31, 2013 – $nil) to Serinus for these services. Serinus and Loon Energy are related as they have five common directors and officers and the same principal shareholder.

The Company remains legally responsible for a guarantee issued in August 2007 (the "Loon Guarantee") to the Government of Peru regarding the granting of a license contract to a former subsidiary company, Loon Peru Limited. Loon Energy, the parent company of Loon Peru Limited, had begun the process of replacing the Loon Guarantee, however, the block to which the guarantee related is in the process of being relinquished and it is not currently anticipated that the guarantee will be replaced.

Loon Energy and the Company have entered into an indemnification agreement in respect of the Loon Guarantee. Loon Energy announced on October 25, 2010 that it will not proceed to the second exploration stage and therefore the maximum liability to the Company that may arise from the Loon Guarantee is based on the first exploration phase. The minimum work program for the first phase has been completed and the Company does not anticipate a material exposure to the guarantee.

The above related party transactions were at exchange amounts agreed to by both parties.

(Stated in thousands of US dollars, except share and per share data)

13. Segmented information

The Company's reportable segments are organized by geographical areas and consist of Romania, Tunisia, Brunei, Ukraine and corporate. For the period ending September 30, 2014, the Company has four significant customers with sales representing 31%, 21%, 20% and 11% of total sales.

	Romania	Tunisia	Brunei	Ukraine	Corporate	Total
As at September 30, 2014						
Total Assets	$ 6,346	$ 187,393	$ 282	$ 94,035	$ 19,005	$ 307,062
For the three months period ended Sept 30, 2014						
Oil and gas revenue, net of royalties	$ -	$ 8,936	$ -	$ 21,145	$ -	$ 30,081
Operating expenses:						
Production expenses	-	(3,143)	-	(2,978)	(188)	(6,309)
General and administrative	-	-	(1,183)	-	(2,220)	(3,403)
Transaction costs	-	-	-	-	59	59
Stock based compensation	-	-	-	-	(685)	(685)
Gain (loss) on disposition of assets	-	-	57	(38)	-	19
Depletion and depreciation	(2)	(2,846)	-	(5,254)	(39)	(8,141)
Finance income/(expense)						
Interest and other income	-	(1)	-	872	1,119	1,990
Unrealized gain/(loss) on investments	-	-	-	-	(77)	(77)
Interest expense and accretion	(17)	(494)	-	(34)	(151)	(696)
Foreign exchange loss	(285)	(325)	-	(1,736)	38	(2,308)
Earnings (loss) before tax	$ (304)	$ 2,127	$ (1,126)	$ 11,977	$ (2,144)	$ 10,530
Current tax expense	-	1,058	-	(2,675)	(29)	(1,646)
Deferred tax recovery/(expense)	-	(2,288)	-	(45)	-	(2,333)
Net Earnings (loss)	$ (304)	$ 897	$ (1,126)	$ 9,257	$ (2,173)	$ 6,551
Capital expenditures	$ 1,702	$ 12,925	$ -	$ 1,552	$ (626)	$ 15,553

	Romania	Tunisia	Brunei	Ukraine	Corporate	Total
For the nine months period ended Sept 30, 2014						
Oil and gas revenue, net of royalties	$ -	$ 30,345	$ -	$ 61,226	$ -	$ 91,571
Operating expenses:						
Production expenses	-	(10,037)	-	(9,323)	(188)	(19,548)
General and administrative	-	-	(1,183)	-	(6,626)	(7,809)
Transaction costs	-	-	-	-	(1,441)	(1,441)
Stock based compensation	-	-	-	-	(2,402)	(2,402)
Gain (loss) on disposition of assets	-	-	164	(38)	-	126
Depletion and depreciation	(5)	(8,862)	-	(15,322)	(103)	(24,292)
Impairment of exploration and evaluation assets	-	-	(337)	-	-	(337)
Finance income/(expense)						
Interest and other income	-	4	-	1,115	1,219	2,338
Unrealized gain/(loss) on investments	-	-	-	-	(8)	(8)
Interest expense and accretion	(17)	(998)	-	(1,064)	(1,652)	(3,731)
Foreign exchange loss	(308)	(518)	-	(5,928)	(71)	(6,825)
Earnings (loss) before tax	$ (330)	$ 9,934	$ (1,356)	$ 30,666	$ (11,272)	$ 27,642
Current tax expense	-	815	-	(6,933)	(29)	(6,147)
Deferred tax recovery/(expense)	-	(3,887)	-	410	-	(3,477)
Net Earnings (loss)	$ (330)	$ 6,862	$ (1,356)	$ 24,143	$ (11,301)	$ 18,018
Capital expenditures	$ 4,343	$ 23,411	$ 337	$ 14,080	$ (308)	$ 41,863

Serinus Energy Inc.
Notes to the Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2014 and 2013
(Stated in thousands of US dollars, except share and per share data)
(Unaudited)

	Romania	Tunisia	Brunei	Ukraine	Corporate	Total
As at December 31, 2013						
Total Assets	$ 1,357	$ 183,988	$ 1,062	$ 120,862	$ 5,204	$ 312,473
For the three months period ended Sept 30, 2013						
Oil and gas revenue, net of royalties	$ -	$ 13,298	$ -	$ 22,355	$ -	$ 35,653
Operating expenses:						
Production expenses	-	(2,175)	-	(364)	-	(2,539)
General and administrative	-	-	-	-	(4,265)	(4,265)
Transaction costs	-	-	-	-	(949)	(949)
Stock based compensation	-	-	-	-	(393)	(393)
Depletion and depreciation	-	(3,172)	-	(5,480)	(35)	(8,687)
Finance income/(expense)	-	-	-			
Interest and other income	-	-	-	(874)	(1)	(875)
Interest expense and accretion	-	(317)	-	(249)	(487)	(1,053)
Foreign exchange loss	339	-	-	(211)	(8)	120
Earnings (loss) before tax	$ 339	$ 7,634	$ -	$ 15,177	$ (6,138)	$ 17,012
Capital expenditures	$ 333	$ 1,037	$ 17,003	$ 12,094	$ -	$ 30,467

	Romania	Tunisia	Brunei	Ukraine	Corporate	Total
For the nine months period ended Sept 30, 2013						
Oil and gas revenue, net of royalties	$ -	$ 13,298	$ -	$ 65,019	$ -	$ 78,317
Operating expenses:						
Production expenses	-	(2,175)	-	(11,173)	-	(13,348)
General and administrative	-	-	-	-	(9,642)	(9,642)
Transaction costs	-	-	-	-	(3,404)	(3,404)
Stock based compensation	-	-	-	-	(831)	(831)
Depletion and depreciation	-	(3,172)	-	(15,555)	(111)	(18,838)
Finance income/(expense)						
Interest and other income	-	-	-	(430)	-	(430)
Unrealized gain/(loss) on investments	-	-	-	-	(100)	(100)
Interest expense and accretion	-	(317)	-	(2,191)	(929)	(3,437)
Foreign exchange loss	339	-	-	(457)	(44)	(162)
Earnings (loss) before tax	$ 339	$ 7,634	$ -	$ 35,213	$ (15,061)	$ 28,125
Capital expenditures	$ 333	$ 1,037	$ 26,152	$ 22,998	$ -	$ 50,520