



# SERINUS ENERGY INC.

Management's Discussion and Analysis  
For the three months ended March 31, 2015  
(US Dollars)

*This Management's Discussion and Analysis ("MD&A") for Serinus Energy Inc. ("Serinus", or "the Company") should be read in conjunction with the Company's unaudited Condensed Consolidated Financial Statements as at and for the period ended March 31, 2015 and the December 31, 2014 annual consolidated financial statements and MD&A ("the Consolidated Financial Statements"). Readers should also read the "Forward-Looking Statements" legal advisory contained at the end of this document.*

*Management is responsible for preparing the MD&A, while the audit committee of the Company's Board of Directors ("the Board") reviews the MD&A and recommends its approval by the Board.*

*This MD&A uses United States dollars ("US Dollars" or "USD") which is the reporting currency of the Company. The consolidated financial statements for March 31, 2015 are prepared in accordance with IAS 34 Interim Financial Reporting and do not include all the information required for full annual financial statements. This document is dated May 13, 2015.*

*In the Advisory section located at the end of this document, readers can find the definition of certain terms used in the disclosure regarding Oil and Gas Information, Non-IFRS Measures as well as information on "Critical Accounting Estimates".*

**HIGHLIGHTS**<sup>1</sup>

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- During Q1 2015, net production levels (being the Company's production from Tunisia and its net 70% interest in Ukraine) averaged 4,406 boe/d, compared to 4,849 boe/d for Q1 2014, a decrease of 9%. The decrease reflects a decrease in Ukraine production of 677 boe/d, offset by an increase in Tunisia production of 234 boe/d. Tunisia production increased due to the inclusion of the Winstar-12bis ("WIN-12bis") well, which commenced production December 10, 2014. Ukraine production was below capacity for Q1 2015 due to the effects of Ukrainian government legislation, pursuant to which the Company shut in or reduced capacity from various wells. Production for 2015 was weighted 70% (2014: 77%) natural gas with the remainder consisting of oil and condensate production.
- Average natural gas prices in Ukraine were lower in Q1 2015 at \$7.84 per Mcf compared to \$8.55 per Mcf in Q1 2014. The hryvnia ("UAH") price at which the Company's natural gas is sold was substantially higher in Q1 2015 as compared to Q1 2014, however a significant deterioration in the UAH as compared to the US dollar resulted in lower USD natural gas prices compared to 2014. The low UAH price in 2014 reflected the Russian incentive program that was in place for Q1 2014. The average effective market exchange rates for the UAH for the three months ended March 31, 2015 was 21.82 UAH/USD as compared to 8.22 UAH/USD in the comparable period of 2014.
- Average crude oil prices in Tunisia were lower in Q1 2015 at \$53.85 per bbl, compared to \$108.06 per bbl in Q1 2014, reflecting the significant decline in Brent that occurred during the latter part of 2014. In Q1, 2015, Brent prices averaged \$53.98 per bbl compared to \$108.14 per bbl in the comparable period.
- The netback for Q1 2015 overall for the Company was \$16.79 per boe, compared to \$38.27 per boe in Q1 2014. The decrease was attributable to lower netbacks in both Ukraine, of \$11.53 per boe compared to \$30.85 per boe in 2014, and Tunisia, of \$30.53 per boe compared \$65.86 per boe in 2014. The lower netback in Ukraine was driven by lower commodity prices and higher royalties, partially offset by lower operating costs due to deterioration in the UAH. Royalties on natural gas in Ukraine increased from 28% to 55%, effective August 1, 2014. The lower netback in Tunisia was driven by lower commodity prices.
- Funds from operations<sup>2 3</sup> were \$4.3 million for the quarter ended March 31, 2015, as compared to \$15.8 million for the comparative period of 2014. In 2015 lower production, lower commodity prices and higher Ukraine royalties contributed to the decrease in funds from operations.
- Revenue, net of royalties, for the three months ended March 31, 2015 decreased to \$13.4 million compared to \$27.9 million in the comparative period in 2014. The decrease in 2015 is attributable to lower commodity prices, lower production and higher royalty rates in Ukraine.
- Dividends of \$0.6 million were declared to partners of the Ukraine Holding Company in Q1 2015. Since acquisition, total dividends of \$69.7 million have been paid out by KUB-Gas LLC. Effective September 23, 2014, the National Bank of Ukraine issued a resolution prohibiting foreign exchange transactions associated with the payment of dividends to foreign entities. This resolution has been extended twice and is now due to expire on June 3, 2015.
- In Ukraine, during Q1 2015, the Company substantially finished the completion and testing operations on the M-22 well in Ukraine. The S13, S13a and S13b were all non-commercial despite initially appearing promising on logs. The S6 zone did build up pressure after perforating and produced gas at rates too small to measure. The well is being suspended, and has been added to the list of wells being considered for fracture stimulation. At this time, no additional drilling and workover projects beyond the M-22 well have been approved.
- In Tunisia, the WIN-12bis well commenced production on December 10, 2014. Gross production from WIN-12bis for Q1 2015 averaged 914 boe/d (664 bbl/d of oil and 1.5MMcf/d of gas). Serinus owns a 45% working interest in Sabria. The Winstar-13 ("WIN-13") well was spud on December 10, 2014 and reached its target total depth of 3,781 metres on March 11, 2015. WIN-13 has been completed and testing began on April 28, 2015. Initial production was substantially all water as drilling and completion fluids were recovered, but the well has steadily cleaned up and the water cut is currently 19%. Oil rates have varied between 100 – 300 bbl/d and current production is approximately 138 bbl/d with a gas-oil ratio of 1,975 ft<sup>3</sup> per bbl. The well appears to be constrained

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<sup>1</sup> Substantially all financial and production analysis in this MD&A reflect the 100% interest in the results of KUB Holdings and KUB-Gas unless specifically noted as net to Serinus which is at the effective 70%. See "Non-Controlling Interest" for further explanation.

<sup>2</sup> See "Non-IFRS Financial Measures" in the end of this MD&A

<sup>3</sup> See "Funds from Operations" for a reconciliation of funds from operations to cash flows.

by a combination of wellbore damage from drilling mud and lost circulation materials, and an obstruction in the tubing string. Remedial operations are anticipated to commence in mid to late May.

- In Romania, two exploration wells, Moftinu-1001 and Moftinu-1002bis, were drilled during Q4 2014 and both wells were completed and tested during Q1 2015. The Moftinu-1001 well achieved a maximum test rate of 7.4 MMcf/d and 19 bbl/d of condensate with only trace amounts of water. The Moftinu-1002bis was tested and the test indicated a tight formation with formation damage consistent with the lower apparent porosities observed on logs and the use of heavy fluids to control washout and hole collapse during drilling. The well averaged approximately 2.8 MMcf/d for 30 minutes then declined to 245 Mcf/d over the following two hours. Data quality was poor, but Moftinu-1002bis does prove the existence of movable hydrocarbons in the four Miocene sands tested. The Company will examine various options for stimulating Moftinu 2002bis.
- In Q1 2015, the Company finalized a new \$11.28 million debt facility with the European Bank for Reconstruction and Development (“EBRD”). The proceeds from the new facility were used to fund the Company’s capital program in Romania.

**OPERATIONAL OVERVIEW**

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Serinus is an international oil and gas exploration and production company with operations in Ukraine, Tunisia and Romania. The Company has management offices in Calgary (Canada), Dubai (United Arab Emirates) and Warsaw (Poland). Serinus is organized into four business segments: Ukraine, Tunisia, Romania and Corporate.

**Ukraine**

As at March 31, 2015, Serinus owns the following licenses in Ukraine:

<b>Production license</b>	<b>Issue date</b>	<b>Expiry date</b>
Vergunskoye field	27 September 2006	27 September 2026
Olgovskoye field	06 February 2012	06 February 2032
Makeevskoye field	10 April 2012	10 April 2032
Krutogorovskoye field	30 August 2013	30 August 2033
<b>Exploration license</b>		
North Makeevskoye field	29 December 2010	20 December 2015

The Company may produce gas and gas condensate under the exploration licence in an amount up to 10% of total estimated reserves as approved by the licensor, the Ministry for Environmental Protection of Ukraine, and may not exceed the cap during the exploration status. The Company can convert exploration licences into production licences which allow unlimited production of gas and gas condensate over the terms of the licences, and which are generally 20-25 years in duration.

The Company began to generate revenues with its acquisition of KUB-Gas in June 2010, and since that time has generated \$285.8 million of revenue, net of royalties, in aggregate from these assets, of which \$200.1 million is net to the 70% interest held by Serinus<sup>4</sup>.

Ukraine’s political, economic and security situation deteriorated significantly since late 2013 with violent conflicts in the capital city of Kyiv in early 2014, the removal of the former president and changes to governing bodies, a depletion of the country’s foreign currency reserves, downgrading of sovereign debt ratings and devaluation of the currency. The political and economic situation has been further exacerbated by the violent conflict in eastern Ukraine where fighting continues between Ukrainian military forces and opposing rebel factions.

The royalty rates applied to the Company’s production have increased significantly as a result of the government of Ukraine’s actions to increase state revenues. In August 2014, the royalty rates on natural gas and condensate production increased to 55% and 45% respectively, from 28% and 42%, effective August 1, 2014 and due to revert to the previous levels on January 1, 2015. The new law had a provision for a “lowering coefficient” on new wells drilled after August 1, 2014, which reduced gas royalties on new wells to 55% of nominal rates (i.e. the effective rate for new wells is 30.25% for

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<sup>4</sup> See “Non-controlling Interest” in this MD&A

gas). Royalties on condensates received no abatement. Rather than allowing these rates to expire, the Ukrainian government subsequently permanently enacted the higher rates in January 2015, but excluded the lowering coefficient. On March 2, 2015 the lowering coefficient was reinstated effective April 1, 2015 and relates to wells drilled after August 1, 2014. Royalties are payable based on the Limit price set by the National Electricity Regulatory Commission (“NERC”) and so to the extent that realized prices are lower, the effective rates will be higher.

On September 22, 2014, the National Bank of Ukraine enacted legislation that prohibits several types of foreign exchange transactions, including the ability of KUB-Gas to pay dividends to shareholders. The restrictions were originally set to expire in December 2014, but were subsequently extended to March 3, 2015, and in March 2015 the restrictions were further extended to June 3, 2015.

In 2015, the Company’s production of natural gas was impacted by the current situation in Ukraine and production levels decreased from prior year. In November 2014, The Ukraine government issued three decrees which reserved a large share of the natural gas market for the state owned National Joint Stock Company, Naftogaz (“Naftogaz”) through legislation. In Q1 2015, the Company experienced the practical effects of the legislation, as the remaining market was insufficient to accept all available gas, resulting in cutbacks by private producers. A Ukraine court subsequently overturned these regulations, and this decision was subsequently upheld on appeal. The government appealed again, but on March 31, 2015, the High Administrative Court of Ukraine dismissed the government’s claims in their entirety. The market has started to readjust with increased volumes in April.

The development of the Company’s oil and gas properties has been impacted by the security situation in eastern Ukraine as drilling and exploration activity was temporarily suspended in the third quarter of 2014. The Company completed the drilling of the M-22 on the Makeevskoye license in the fourth quarter of 2014 and has completed the well during Q1 2015 with testing currently underway. At this time, no additional exploration and development projects are planned for 2015 beyond a field compression project on the Olgovskoye field. The Company may consider additional capital expenditures in 2015 subject to the availability of cash flow from operations and the security situation. The Company may also resume testing operations on the NM-3 exploration well that are required to be performed by September 30, 2015 to retain the North Makeevskoye license. Should the Company not be able to perform testing operations on the NM-3 well, the North Makeevskoye license may be subject to relinquishment. In the longer term, should the Company not be able to recommence active exploration and development activity, production and reserve volumes could be negatively impacted.

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.

**Tunisia**

As at March 31, 2015, Serinus has the following interests in Tunisia concessions:

<b>Concession</b>	<b>Working interest</b>	<b>Expiry date</b>
Chouech Es Saida	100%	December 2027
Ech Chouech	100%	September 2022
Sabria	45%	November 2028
Zinnia	100%	December 2020
Sanrhar	100%	December 2021

Four of the concessions are currently producing oil or gas.

The Tunisian state oil and gas company, Enterprise Tunisienne d’Activites Petroliere (“ETAP”), has the right to back into the Chouech Es Saida concession for up to a 50%, if and when the cumulative liquid hydrocarbon sales, net of royalties and shrinkage, from the concession exceed 6.5 million barrels. As at March 31, 2015, cumulatively 4.9 million barrels, net of royalties and shrinkage have been sold from the concession.

## **Romania**

Serinus has interests in Romania through a joint venture agreement with Rompetrol S.A. (“Rompetrol”). By fulfilling certain commitments within the agreement, consisting of processing and acquiring seismic and the drilling of exploration wells, Serinus has earned a 60% interest in the 2,949 square kilometer onshore Satu Mare exploration concession agreement in north western Romania. The drilling of Moftinu-1001 and 1002bis, along with the 180 km<sup>2</sup> 3D seismic program in the Santau area shot in late 2014 and associated filings to the Government, will fulfil both the Government and partner minimum work commitments for the Satu Mare Concession, Phase 2. Satisfactory completion of Phase 2 entitles the Company to request an extension of the exploration period by an additional period of three years and provide a minimal work schedule. Serinus has commenced preliminary discussions with the regulators with respect to the attendant work program and extension to the concession. Written confirmation of the extension is expected in May 2015.

The Satu Mare concession is on the border with Hungary and Ukraine within the Pannonian Basin and the term of the concession agreement expires in September 2033.

## **Other**

In Brunei, the Company holds a 90% working interest in the Brunei Block L production sharing agreement (“Block L PSA”) which gives the Company and the other parties thereto the right to explore for and, upon fulfillment of certain conditions, the right to produce oil and gas from Block L, a 1,123 square kilometer (281,000 acre) area covering certain onshore and offshore areas. Serinus is the operator of Block L. Due to the results of the wells drilled to date, the Brunei Block L assets are fully impaired. The Company, together with PetroleumBRUNEI, are in the process of evaluating future plans.

In Syria, the Company holds a working interest of 50% in the Syria Block 9 production sharing contract (“Block 9 PSC”) which provides the right to explore for and, upon fulfillment of certain conditions, to produce oil and gas from Block 9, a 10,032 square kilometer (2.48 million acre) area in northwest Syria. The Company has an agreement to assign a 5% ownership interest to a third party which is subject to the approval of Syrian authorities, and which, if approved, would leave the Company with a remaining effective interest of 45% in Block 9. 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.

Serinus has interests in a minor property at Sturgeon Lake in Alberta, Canada. This asset is not currently producing and has a future abandonment liability associated with it of \$1.6 million.

In addition, the Company has a 4% net profits interest in the Igal II Exploration permit in Hungary. The Company expects to wind up its Hungarian operations in 2015.

## **NON-CONTROLLING INTEREST**

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Serinus holds a 70% ownership interest in KUB-Gas LLC (“KUB-Gas”), a Ukrainian company held through KUB GAS Holdings Limited (“KUB Holdings”), a private company incorporated in Cyprus. Serinus controls KUB Holdings and is required under IFRS to consolidate the results of KUB Holdings and KUB-Gas into its financial statements, and in doing so the Company reports 100% of the revenues, royalties and production and other expenses for KUB Holdings and KUB-Gas. Similarly, the Company reports 100% of the assets and liabilities of KUB Holdings and KUB-Gas on its consolidated balance sheet. The 30% share of the net assets and earnings of KUB Holdings and KUB-Gas attributable to the minority shareholder is presented by way of a one line entry as “non-controlling interest”.

Substantially all financial and production analysis in this MD&A reflect the 100% interest in the results of KUB Holdings and KUB-Gas unless specifically noted as net to Serinus which is at the effective 70%.

The table below summarizes the three months ended March 31, 2015 results reported by the Company in accordance with IFRS, including 100% of KUB Holdings and KUB-Gas as described above, with the 30% share allocated to the non-controlling interest to reflect the net results of operations attributable to the Company’s 70% economic interest.

**Serinus Energy Inc. Q1 2015 MD&A**  
(Thousands of US dollars, except as noted)

	Three months ended March 31, 2015		
	As reported	Allocated to non-controlling interest	Net to Serinus
Total daily production (boe)	5,618	(1,212)	4,406
Oil and gas revenue	\$ 25,155	\$ (5,108)	\$ 20,047
Royalties	(11,797)	3,262	(8,535)
Oil and gas revenues, net of royalties	13,358	(1,846)	11,512
Production expenses	(4,868)	589	(4,279)
General and administrative	(1,395)	8	(1,387)
Transaction costs	(47)	-	(47)
Stock-based compensation	(636)	-	(636)
Depletion and depreciation	(4,820)	675	(4,145)
Interest and other income	911	(258)	653
Unrealized loss on investments	(17)	-	(17)
Foreign exchange loss	(3,441)	586	(2,855)
Interest expense and accretion	(1,173)	41	(1,132)
Earnings before taxes	(2,128)	(205)	(2,333)
Current tax expense	(1,257)	322	(935)
Deferred tax expense	(738)	(262)	(1,000)
Loss for the period	<u>\$ (4,123)</u>	<u>\$ (145)</u>	<u>\$ (4,268)</u>
Funds from operations	<u>\$ 4,344</u>	<u>\$ (1,177)</u>	<u>\$ 3,167</u>

**FUNDS FROM OPERATIONS**

Serinus uses funds from operations as a key performance indicator to measure the ability of the Company to generate cash from operations to fund future exploration activities. Funds from operations is not a standard measure under IFRS and therefore may not be comparable to similar measures reported by other entities.

The following table is a reconciliation of funds from operations to its most closely related IFRS measure cash flow from operations:

	Three months ended March 31,	
	2015	2014
Cash flow from operations	\$ 1,655	\$ 6,194
Changes in non-cash working capital	2,689	9,568
Funds from operations (a)	<u>\$ 4,344</u>	<u>\$ 15,762</u>
Funds from operations per share	<u>\$ 0.06</u>	<u>\$ 0.20</u>

- (a) Funds from operations is defined as cash flow from operations before changes in non-cash working capital. Funds from operations is not a standard measure under IFRS. See section titled "Non-IFRS Financial Measures" for advisory over use of non-IFRS financial measures.

Positive funds from operations are generated in Ukraine and Tunisia, representing the Company's producing assets for the period.

Funds from operations decreased by \$11.4 million to \$4.3 million in Q1 2015 compared to Q1 2014 of \$15.8 million. The decrease in funds from operations in the first quarter of 2015 is primarily attributable to lower commodity prices and production (\$10.7M) and increased Ukraine royalties (\$3.9 million), partially offset by decreased production costs (\$1.2 million) and decreased transaction costs (\$0.9 million).

**PRODUCTION (Net to Serinus)**

	Three months ended March 31,	
	2015	2014
Average Daily Production		
Crude Oil (bbl/d)	1,240	1,024
Natural gas (Mcf/d)	18,581	22,355
Natural gas liquids (bbl/d)	69	99
Total boe/d	4,406	4,849
Production by Location (boe/d)		
Ukraine	2,827	3,504
Tunisia	1,579	1,345
Total boe/d	4,406	4,849

Production volumes decreased by 9% in Q1 2015 to 4,406 boe/d, net to Serinus, compared to 4,849 boe/d in the comparable period of 2014. The decrease in Q1 2015 reflects a decrease of 19% in production volumes from Ukraine offset by an increase of 17% from Tunisia.

**Ukraine**

	Three months ended March 31,	
	2015	2014
Average Daily Production (net to Serinus)		
Natural gas (Mcf/d)	16,550	20,427
Natural gas liquids (bbl/d)	69	99
Total boe/d	2,827	3,504

In Ukraine, production volumes, net to Serinus, decreased by 19% in the first quarter of 2015, to 2,827 boe/d, compared to 3,504 boe/d in the comparable period of 2014. The decrease is a result of the continued deterioration of the political and economic situation in Ukraine. During Q1 2015, the Ukrainian government attempted to reserve a large share of the natural gas market for the state owned National Joint Stock Company, Naftogaz (“Naftogaz”) through legislation. The remaining market was insufficient to accept all available gas, resulting in cutbacks by private producers. As a result, Kub-Gas shut in or reduced production from various wells in order to ensure a credit-worthy market was available for gas consumption. A Ukraine court subsequently overturned these regulations, and this decision was upheld on appeal. The government appealed again, but on March 31, 2015, the High Administrative Court of Ukraine dismissed the government's claims in their entirety. The market has started to readjust with increased volumes in April.

**Tunisia**

	Three months ended March 31,	
	2015	2014
Average Daily Production (net to Serinus)		
Crude Oil (bbl/d)	1,240	1,024
Natural gas (Mcf/d)	2,031	1,928
Total boe/d	1,579	1,345

In Tunisia, production volumes increased by 17% in the first quarter of 2015 to 1,579 boe/d, compared to 1,345 boe/d in the comparable period of 2014. Production is predominantly from the Chouech Es Saida and Sabria fields, which account for 90% of the production in Tunisia. The major factor behind the increase was the greater inclusion of the WIN-12bis, which commenced production December 10, 2014. It produced for most of the first quarter, with the exception of being shut-in for 12 days in March for a pressure build-up test and averaged 914 boe/d for the quarter.

**OIL AND GAS REVENUE**

	Three months ended March 31,	
	2015	2014
Crude oil	\$ 6,011	\$ 9,956
Natural gas	18,792	24,908
Natural gas liquids	352	999
	\$ 25,155	\$ 35,863
<b>Ukraine (a)</b>		
Natural gas (\$/mcf)	\$ 7.84	\$ 8.55
Natural gas liquids (\$/bbl)	39.83	78.19
Average price (\$/boe)	\$ 46.84	\$ 52.04
<b>Tunisia</b>		
Crude Oil(\$/bbl)	\$ 53.85	\$ 108.06
Natural gas (\$/mcf)	11.58	14.18
Average price (\$/boe)	\$ 57.20	\$ 102.57

(a) Ukraine realized commodity prices for natural gas price and condensate are based on the average price received in UAH converted to USD using the average FX rate for the period.

Oil and gas revenue decreased by 30% or \$10.7 million in Q1 2015 as compared to Q1 2014. During Q1 2015, the contributing factors were lower commodity prices and lower production.

In Ukraine, revenues totalled \$17.0 million for Q1 2015, compared to \$23.4 million in Q1 2014. The 27% decrease is attributable to a 19% decrease in production volumes and a 10% decrease in the average commodity price.

Ukraine natural gas commodity prices were lower in Q1 2015 compared to Q1 2014, with a realized natural gas price of \$7.84 per Mcf, compared to \$8.55 per Mcf. The domestic gas price within Ukraine is set by the NERC of Ukraine by reference to the Russian imported gas price. Gas sold in Ukraine is paid in UAH, making its realized price in USD also subject to exchange rate risk. The majority of the Company's production is marketed and sold to wholesalers, who then sell to industrial users, and therefore KUB-Gas receives a price discounted to the limit price set by NERC. Given the market issues experienced during the first quarter 2015, the discount increased to 10-15% compared to discounts in 2014 of approximately 5-10%.

Natural gas prices in UAH were substantially higher in Q1 2015 as compared to Q1 2014, but a deteriorating UAH significantly impacted the USD equivalent price. The UAH price in Q1 2014 was low due to the Russian incentive program in place during that period. The exchange rate for the UAH for the three months ended March 31, 2015 was 21.82 UAH/USD as compared to 8.22 UAH/USD in the comparable period of 2014.

Oil sales for Tunisia include volumes loaded onto tankers, as well as the change in the net realizable value of oil inventory. During Q1 2015, the Company had three tanker liftings, however, with the increased production from WIN-12 the Company sold fewer barrels than it produced. The Company's underlift position was approximately 2,099 bbl at March 31, 2015, resulting in inventory of \$0.1 million.

In Tunisia, revenues totalled \$8.1 million for Q1 2015, compared to \$12.4 million in Q1 2014. The decrease of 35% is attributable to a 44% decrease in the average commodity price, offset by a 17% increase in production volumes. Oil prices in Tunisia are based on a premium or discount to Brent over the 3 day lifting period, depending on the payment settlement terms. The Company is required to sell 20% of its annual oil production from the Sabria concession into the local market, which is sold at an approximate 10% discount to the price obtained on its other crude sales. In Q1 2015, Brent prices averaged \$53.98 per bbl compared to \$108.14 per bbl in the comparable period. Natural gas prices are nationally regulated and are tied to the twelve month trailing average of low sulphur heating oil (benchmarked to Brent).



**ROYALTIES**

	Three months ended March 31,	
	2015	2014
Ukraine	\$ 10,872	\$ 6,294
Tunisia	925	1,655
Total royalties	<u>\$ 11,797</u>	<u>\$ 7,949</u>
<b>\$/boe</b>	<u>\$ 23.33</u>	<u>\$ 13.91</u>
Royalties by Location as a percentage of sales		
Ukraine	63.9%	26.8%
Tunisia	11.4%	13.3%
	<u>46.9%</u>	<u>22.2%</u>

The average royalty rate for Q1 2015 was 46.9% as compared to 22.2% in Q1 2014. The increase in royalty rates year over year is attributable to an increase in rates in Ukraine.

In Ukraine, the average royalty rate for Q1 2015 was 63.9% compared to 26.8% in Q1 2014. The royalty rates applied to the Company's production have increased significantly as a result of the government of Ukraine's actions to increase state revenues. Effective August 1, 2014 the royalty rate on natural gas and condensate production increased to 55% and 45% respectively, from 28% and 42%, and was originally due to expire on January 1, 2015. The new law also had a provision for a "lowering coefficient" on new wells drilled after August 1, 2014, which reduced gas royalties on new wells to 55% of nominal rates (i.e. the effective rate of new wells is 30.25% for gas). Rather than expiring, those increases were made permanent in January 2015 by the Ukrainian government, and the lowering coefficient was excluded. On March 2, 2015 the lowering coefficient was reinstated effective April 1, 2015 and still relates to wells drilled after August 1, 2014. Royalties are payable based on the Limit price set by NERC and so to the extent that realized prices are lower, the effective rates will be higher.

In Tunisia the Q1 2015 royalty rate was slightly lower at 11.4% compared to 13.3% in the 2014 comparative period. Tunisian royalties are based on individual concession agreements, none of which exceed 15%. In two concessions, Sabria and Zinnia, the royalty rate varies depending on a calculation of cumulative revenues, net of taxes, as compared to cumulative investment in the concession, known as the "R factor". As the R factor increases, so does the royalty percentage to a maximum rate of 15%. The decrease in the average royalty rate reflects proportionally more production from Sabria in 2015, which has a 7% royalty rate, therefore decreasing the average royalty rate for Tunisia.

**PRODUCTION EXPENSES**

	Three months ended March 31,	
	2015	2014
Ukraine	\$ 1,964	\$ 3,253
Tunisia	2,864	2,789
Canada	40	-
Production expenses	<u>\$ 4,868</u>	<u>\$ 6,042</u>
Production expense by location (\$/boe)		
Ukraine	\$ 5.40	\$ 7.22
Tunisia	20.16	23.04
	<u>\$ 9.63</u>	<u>\$ 10.57</u>

On an absolute basis, production expenses decreased 19% to \$4.9 million in Q1 2015 from \$6.0 million in Q1 2014. On a per boe basis, production expenses decreased to \$9.63 per boe in Q1 2015 compared to \$10.57 per boe in Q1 2014.

Ukraine production expenses were \$5.40 per boe in Q1 2015 compared to \$7.22 per boe in the comparable period of 2014. Production expenses decreased primarily due to the weakening of the Ukrainian UAH.

**Serinus Energy Inc. Q1 2015 MD&A**  
(Thousands of US dollars, except as noted)

Tunisia's production has higher average production expenses as compared to Ukraine, as Tunisia's production is weighted to oil, which has a higher cost to produce than the Ukraine natural gas properties.

Tunisia production expenses for Q1 2015 averaged \$20.16 per boe, compared to \$23.04 per boe in Q1 2014. On an absolute basis production expense only increased by 3% despite a 17% increase in production, resulting in a lower per boe metric.

In Q1 2015, production expenses included \$40 thousand related to the Sturgeon Lake assets. The asset is not producing and is incurring minimal operating costs to maintain the property.

**OIL AND GAS NETBACK**

Ukraine Netback by Commodity (Volume in thousands)	Three months ended March 31,					
	2015			2014		
	Gas (Mcf)	Oil and liquids (bbl)	Total (boe)	Gas (Mcf)	Oil and liquids (bbl)	Total (boe)
Average daily sales volumes (gross)	23,644	98	<b>4,039</b>	29,181	142	<b>5,006</b>
Average daily sales volumes (net)	16,550	69	<b>2,827</b>	20,427	99	<b>3,504</b>
Revenue	\$ 7.84	\$ 39.83	\$ <b>46.84</b>	\$ 8.55	\$ 78.19	\$ <b>52.04</b>
Royalty expense	(5.02)	(22.29)	<b>(29.91)</b>	(2.25)	(30.51)	<b>(13.97)</b>
Production expenses	(0.92)	-	<b>(5.40)</b>	(1.24)	-	<b>(7.22)</b>
<b>Netback</b>	<b>\$ 1.90</b>	<b>\$ 17.54</b>	<b>\$ 11.53</b>	<b>\$ 5.06</b>	<b>\$ 47.68</b>	<b>\$ 30.85</b>

Tunisia Netback by Commodity (Volume in thousands)	Three months ended March 31,					
	2015			2014		
	Gas (Mcf)	Oil and liquids (bbl)	Total (boe)	Gas (Mcf)	Oil and liquids (bbl)	Total (boe)
Average daily sales volumes (net to Serinus)	2,031	1,240	<b>1,579</b>	1,928	1,024	<b>1,345</b>
Revenue	\$ 11.58	\$ 53.85	\$ <b>57.20</b>	\$ 14.18	\$ 108.06	\$ <b>102.57</b>
Royalty expense	(1.21)	(6.31)	<b>(6.51)</b>	(1.83)	(14.51)	<b>(13.67)</b>
Production expenses	(4.08)	(18.97)	<b>(20.16)</b>	(3.78)	(23.15)	<b>(23.04)</b>
<b>Netback</b>	<b>\$ 6.29</b>	<b>\$ 28.57</b>	<b>\$ 30.53</b>	<b>\$ 8.57</b>	<b>\$ 70.40</b>	<b>\$ 65.86</b>

In Ukraine, the netback decreased to \$11.53 per boe in Q1 2015 compared to \$30.85 per boe in Q1 2014, due to higher royalties and lower realized prices.

In Tunisia, the netback decreased to \$30.53 per boe for Q1 2015 compared to \$65.86 in Q1 2014. The decrease in Q1 2015 is due to lower realized prices, partially offset by lower royalties and operating costs per boe.

**GENERAL AND ADMINISTRATIVE EXPENSES**

	Three months ended March 31,	
	2015	2014
General and administrative	\$ 1,395	\$ 1,985
<b>\$/boe</b>	<b>\$ 2.76</b>	<b>\$ 3.47</b>

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**(Thousands of US dollars, except as noted)**

G&A costs incurred by the Company are expensed, with certain costs directly related to exploration and development assets being capitalized. General and administrative (“G&A”) costs decreased 30% year over year to \$1.4 million in Q1 2015 compared to \$2.0 million in Q1 2014. The decrease in costs is mainly attributable to lower consultancy and staff costs.

On a per boe basis, decreased production for the quarter resulted in a lesser decrease in the per boe metric, with G&A costs decreasing by 20% to \$2.76 per boe for the quarter, compared to \$3.47 per boe in Q1 2014.

**STOCK BASED COMPENSATION**

	Three months ended March 31,	
	2015	2014
Stock based compensation	\$ 636	\$ 1,030
<b>\$/boe</b>	<b>\$ 1.26</b>	<b>\$ 1.80</b>

Under the terms of the stock option plan, when options are granted 1/3 vest immediately and then 1/3 vests on the anniversary of grant date for each of the two subsequent years. These terms result in a proportionally higher expense in the period of grant as compared to later periods.

Stock based compensation was \$0.6 million in Q1 2015 compared to \$1.0 million in Q1 2014. The lower expense recognized in Q1 2015 as compared to Q1 2014, is due to the timing of grants made, partially offset by the cancellation of options during Q1 2015. Significant grants were made in Q4 2013 and Q1 2014, and therefore expense was high through Q4 2013 and Q1 2014 as grants immediately vest resulting in higher compensation expense in these periods. The expense in Q1 2015 was lower due to less grants vesting in the period, however Q1 2015 does reflect the accelerated expense associated with the cancellation of 2,753,400 options.

**DEPLETION, DEPRECIATION AND IMPAIRMENT**

	Three months ended March 31,	
	2015	2014
Ukraine	\$ 2,252	\$ 5,253
Tunisia	2,529	3,013
Corporate	39	31
Depletion and depreciation (“D&D”)	<b>\$ 4,820</b>	<b>\$ 8,297</b>
Impairment	<b>\$ -</b>	<b>\$ 337</b>
D&D by location (\$/boe)		
Ukraine	\$ 6.20	\$ 11.66
Tunisia	17.80	24.89
	<b>\$ 9.53</b>	<b>\$ 14.52</b>

D&D is computed on a concession by concession basis taking into account the net book value of the concession, future development costs associated with the reserves as well as the proved and probable reserves of the field.

The depletion and depreciation expense for the three months ended March 31, 2015 decreased to \$4.8 million from \$8.3 million in the comparative period of 2014. Of this amount, \$2.3 million relates to Ukraine and \$2.5 million relates to Tunisia. In Ukraine the decrease in depreciation expense in Q1 2015 reflected a lower depletion rate per boe and lower production. In Tunisia the decrease in depletion expense was due to a lower depletion rate per boe, partially offset by higher production.

On a per boe basis, depletion rates decreased to \$9.53 per boe for the three months ended March 31, 2015, compared to \$14.52 per boe in the comparative period of 2014. The decrease in rate in Ukraine is primarily due to the deterioration in

the UAH and impairments recorded in 2014, which has resulted in lower net book values. The decrease in Tunisia is due to a decrease in the depletable base associated with impairments recorded in 2014.

In 2014, impairment related to the Brunei Block L asset.

**INTEREST EXPENSE AND ACCRETION**

	Three months ended March 31,	
	2015	2014
Interest on long-term debt	\$ 932	\$ 601
Interest on convertible note and debentures	-	450
Other interest charges	14	49
Accretion on asset retirement obligations	227	214
	<u>\$ 1,173</u>	<u>\$ 1,314</u>

Interest expense and accretion in Q1 2015 decreased to \$1.2 million as compared to \$1.3 million in Q1 2014. In Q1 2015, interest on long-term debt increased compared to Q1 2014 due to increased borrowings with EBRD related to Tunisia and Romania. This was offset by a decrease on interest on the convertible note and debentures as the debt was fully repaid in 2014. In Q1 2015, interest on long-term debt amounted to \$0.8 million on the EBRD-Tunisia loan facility and \$0.1 million on the EBRD-Ukraine loan facility.

**FOREIGN EXCHANGE LOSS**

	Three months ended March 31,	
	2015	2014
Foreign exchange loss	<u>\$ 3,441</u>	<u>\$ 3,644</u>

Fluctuations in foreign currency exchange rates are an economic factor that affects the Company's cash flow required for operations and for investments. The financial statements are presented in U.S. dollars, which is the reporting currency of the Company. Fluctuations in foreign currency exchange rates between US Dollars and other currencies resulted in a foreign exchange loss of \$3.4 million for the three months ended March 31, 2015, compared to \$3.6 million in the comparative quarter.

The financial statements of KUB-GAS use the Ukraine UAH as its functional currency. As a result of a 31% deterioration of the UAH versus the US dollar during the three months ended March 31, 2015, the translation of balances denominated in currencies other than UAH at period end into UAH resulted in a foreign exchange loss of \$2.0 million for the three months ended March 31, 2015 (2014: \$3.6 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 \$10.9 million being recorded for the three months ended March 31, 2015 (Q1 2014: \$18.9 million). An appreciation in the exchange rate would have the opposite effect.

**CAPITAL EXPENDITURES**

	Three months ended March 31,	
	2015	2014
Capital expenditures on property, plant and equipment	\$ 7,660	\$ 8,221
Capital expenditures on exploration and evaluation assets	3,586	2,030
<b>Total capital expenditures</b>	<b>\$ 11,246</b>	<b>\$ 10,251</b>
	Three months ended March 31,	
	2015	2014
Expenditure by location		
Ukraine	\$ 1,523	\$ 7,161
Tunisia	6,145	1,671
Romania	3,575	1,023
Corporate	3	396
	<b>\$ 11,246</b>	<b>\$ 10,251</b>

Capital expenditures consist of expenditures incurred on assets which are in the exploration and evaluation stage and include expenditures incurred on wells and seismic acquisition and processing. For these assets, the technical feasibility and commercial viability of the underlying property has yet to be determined. Exploration and evaluation assets (“E&E”) are not subject to depletion and depreciation, but are subject to impairment. As at March 31, 2015, this includes certain Ukraine assets and the Romanian assets. Expenditures incurred on assets for which technical feasibility and commercial viability have been determined are classified as property, plant and equipment (“PP&E”).

In Ukraine, the Company incurred \$1.5 million of capital expenditures in Q1 2015, which included:

- Testing and completion to the M-22 well: The Company has substantially finished completion and testing operations on the M-22 well. The S13, S13a and S13b were all non-commercial despite initially appearing promising on logs. The S6 zone did build up pressure after perforating and produced gas at rates too small to measure. The well is being suspended, and has been added to the list of wells being considered for fracture stimulation.
- Field compression for the Olgovskoye field.

In Tunisia, the Company incurred \$6.1 million of capital expenditures in Q1 2015, which included:

- Drilling Win-13 well: the well was spud on December 10, 2014 and reached its target total depth of 3,781 metres on March 11, 2015. WIN-13 has been completed and testing began on April 28, 2015. Initial production was substantially all water as drilling and completion fluids were recovered, but the well has steadily cleaned up and the water cut is currently 19%. The well appears to be constrained by a combination of wellbore damage from drilling mud and lost circulation materials, and an obstruction in the tubing string. Remedial operations are anticipated to commence in mid to late May.

In Romania, the Company incurred \$3.6 million of capital expenditures in Q1 2015, which included:

- Completion and testing of the Moftinu-1001 and Moftinu-1002bis. The Moftinu-1001 well in Romania achieved a maximum test rate of 7.4 MMcf/d and 19 bbl/d of condensate with only trace amounts of water. The Moftinu-1002bis was tested and the test indicated a tight formation with formation damage consistent with the lower apparent porosities observed on logs and the use of heavy fluids to control washout and hole collapse during drilling. The well averaged approximately 2.8 MMcf/d for 30 minutes then declined to 245 Mcf/d over the following two hours. The estimates and conclusions at this point are more qualitative than quantitative due to poor data quality. Despite the poor data quality, Moftinu-1002bis does prove the existence of movable hydrocarbons in the four Miocene sands tested.

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Capitalized costs of the Company's exploration and evaluation assets are as follows:

	As at March 31, 2015	As at December 31, 2014
Ukraine	\$ 4,684	\$ 6,766
Romania	16,110	12,557
	<u>\$ 20,794</u>	<u>\$ 19,323</u>

**LIQUIDITY, DEBT AND CAPITAL RESOURCES**

	Three months ended March 31,	
	2015	2014
Operating cash flows	\$ 1,655	\$ 6,194
Financing cash flows	13,157	606
Investing cash flows	(3,902)	(12,397)
Effect of exchange rate changes on cash	813	437
Change in cash	<u>\$ 11,723</u>	<u>\$ (5,160)</u>

**Working Capital**

	As at March 31, 2015	As at December 31, 2014
Current assets	\$ 45,799	\$ 43,057
Current liabilities	53,484	56,030
Working capital	<u>\$ (7,685)</u>	<u>\$ (12,973)</u>

Serinus has a working capital deficit of \$7.7 million as at March 31, 2015 (December 31, 2014: \$13.0 million). The Company's liquidity requirements arise primarily from the need to finance exploration and development expenditures and general working capital. The Company believes that funds from operations in the future or equity or debt financing can be used to settle the working capital deficiency.

As is the case with many exploration companies, the Company is exposed to the risk that internally generated cash flows may not be sufficient to fund capital projects, additional financing may not be available to the Company, or that actual expenditures may exceed those planned. The Company has successfully undertaken, and plans to continue to undertake, various measures to mitigate the risk. The Company monitors its liquidity position regularly to assess whether it has the funds necessary to complete planned programs. Alternatives available to Serinus to manage this liquidity risk include deferring planned capital expenditures that exceed amounts required to retain concession licences, farm-out arrangements and securing new equity or debt capital.

The Company is currently restricted from paying dividends out of Ukraine, due to currency controls that were first implemented in September 2014. These currency controls were due to expire on December 3, 2014 but were extended to March 3, 2015 and have since been extended to June 3, 2015.

On February 20, 2015, Serinus finalized a new \$11.28 million debt facility with ERBD. The proceeds from the new facility (the "Romania Facility") were used to fund the Company's capital program Romania.

There are no other restrictions on the use of the Company's capital resources that could materially affect, directly or indirectly, its operations or activities. The Company is in compliance with all covenants to debt agreements which could restrict its operations or activities.

To ensure security and the preservation of capital, the Company's investment policy for cash that is surplus to immediate requirements is to invest such funds in instruments issued by major chartered banks that are rated "triple A", or its equivalent by independent rating agencies.

Details of all debt outstanding, including pledges, are disclosed in the notes to the condensed consolidated financial statements as at March 31, 2015.

The following details the debt agreements the Company has or had in place over the period ended March 31, 2015:

***EBRD-Tunisia Loan Facility***

On November 20, 2013 the Company finalized two loan agreements aggregating USD \$60 million with EBRD. The Senior Loan is in the amount of USD \$40 million, has a term of seven years, and is available in two tranches of USD \$20 million each. Interest is payable semi-annually at a variable rate equal to LIBOR plus 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 Senior Loan is repayable in twelve equal semi-annual instalments commencing March 31, 2015. 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. Refer to "Covenants" section for details of the associated covenants.

With the placement of the EBRD Romanian Facility in Q1 2015, the committed portion of the second tranche of the Company's senior debt facility with the EBRD associated with the Tunisian assets has been reduced from \$20 million to \$8.72 million.

The Convertible Loan in the amount of USD \$20 million has a term of seven years, and bears interest at a variable rate that is the LIBOR 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. The Company can elect, subject to certain conditions, to convert all or any portion of the Convertible Loan principal and accrued interest outstanding for newly issued shares of the Company at the then current market price of the shares on the TSX or WSE, as required by the exchange rules. The EBRD can also at any time, and on multiple occasions elect to convert all or any portion of the Convertible Loan principal and accrued interest outstanding for newly issued shares of the Company at the then current market price of the shares on the TSX or WSE. Conditions to conversion include a requirement for substantially all of the Company's assets and operations to be located and carried out in the EBRD countries of operations.

The Company can also repay the Convertible Loan at maturity in cash or in kind, subject to certain conditions, by issuing new common shares valued at the then current market price of the shares on the TSX or WSE. The repayment amount is subject to a discount of approximately 10% in the event that the requirement for substantially all of the Company's assets and operations to be located and carried out in the EBRD countries of operations is not met at the date of repayment.

Both loans 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.

As at March 31, 2015, the Company has drawn \$20.0 million from Tranche 1 of the Senior Loan, \$20.0 from the Convertible Loan and \$1.0 million of transaction costs were paid (December 31, 2014: \$20.0 million Senior Loan; \$15.0 million Convertible Loan; and \$1.0 million transaction costs). In addition, the Company locked in the interest rate on the \$20.0 million of the Senior Loan at a rate of 6.9% for a two year period from September 30, 2014 to September 30, 2016.

***EBRD-Romania Facility***

On February 20, 2015, Serinus finalized a new €10 million (\$11.28 million) debt facility with EBRD. The proceeds from the senior loan facility (the "Romania Facility") were used to fund the Company's capital program in Romania.

Interest on the Romania Facility is payable semi-annually in March and September of each year at a variable rate equal to LIBOR (six month) plus 8%. Interest payments for the Romania Facility will commence in September 2015. The Romania Facility is repayable in ten equal semi-annual installments with the first repayment to be made on March 31, 2016.

The Romania Facility contains an accelerated repayment provision whereby if and when the Company is able to convert and repatriate its cash in Ukraine, currently held in UAH, the Company will apply those funds to early repayment the Romania Facility according to the following schedule:

<u>Threshold</u>	<u>Amount Applied to Pre-Payment</u>
Up to the first 50 million UAH equivalent	100%
Thereafter, until 50% of the Romania Facility has been pre-paid	70%
Thereafter, until 70% of the Romania Facility has been pre-paid	50%
Thereafter, until the Romania Facility has been fully repaid	30%

In addition, the Company will apply 40% of its Excess Cash from Tunisia toward early repayment of the Romania Facility and once repaid, then Excess Cash shall be applied to the Tunisian facility outstanding with EBRD. Excess Cash is defined as the Operating Cash Flow from Serinus' Tunisia subsidiary, less debt service costs arising from all senior debt on the Tunisia assets and the Romanian debt, less capital expenditures, plus any new debt disbursement on the Tunisian debt. In the event that pre-payments are made in any given year from Ukraine as described above, the repayment from Tunisia shall drop to 25% of Excess Cash. No pre-payment fees are applicable to the accelerated payments described above.

The debt is also subject to certain affirmative covenants, including maintaining the specific security, environmental and social compliance, and maintenance of specified financial ratios.

As at March 31, 2015, the Company has fully drawn the facility of \$11.28 million and \$0.5 million of transaction costs were paid.

#### ***EBRD-Tunisia and Romanian Loan Facility Covenants***

Both loan agreements as part of the EBRD-Tunisia and Romanian Loan Facility contain a number of affirmative covenants, including maintaining the specified security, environmental and social compliance, and maintenance of specified financial ratios.

	As at March 31, 2015	As at December 31, 2014
Debt Service Coverage Ratio (not less than 1.3:1) (a)		
- Tunisia (b)	8.3	23.0
Debt Service Coverage Ratio (not less than 1.5:1) (c)		
- Serinus (d)	5.8	5.8
Financial Debt to EBITDA (no more than 2.5) (e)		
- Tunisia (f)	1.4	0.8
Financial Debt to EBITDA (no more than 2.75) (g)		
- Serinus (h)	0.8	0.5
Compliance	<b>YES</b>	<b>YES</b>

(a) This calculation is equal to the trailing twelve month cash flow from operations divided by debt service costs. A deduction is made from cash flows for Tunisia capital expenditures not considered part of the EBRD project expenditures.

(b) Tunisia adjusted cash flow was \$26.6 million for the 12 month period ended March 31, 2015. The debt service costs for the same period were \$3.2 million (December 31, 2014: \$21.0 million and \$0.91 million respectively).

(c) This calculation is equal to the trailing twelve month cash flow from operations divided by debt service costs. A deduction is made from cash flow for capital expenditures not considered EBRD project costs in Tunisia and Romania.

(d) Serinus' adjusted consolidated cash flow amount was \$48.1 million for the 12 month period ended March 31, 2015. The debt service costs for the same period were \$8.3 million (December 31, 2014: \$43.1 million and \$7.4 million respectively).

(e) Financial debt as defined under the agreement includes the senior portion of the EBRD Tunis Loan and Romanian EBRD Loan. EBITDA as defined under the agreement is for the trailing 12 months and is defined as oil and gas revenue, net of royalties less production expenses, general and administrative expenses and transaction costs.

(f) Tunisia financial debt totalled \$31.3 million as at March 31, 2015. EBITDA totalled \$21.8 million for the same period (December 31, 2014: \$19.8 million and \$25.5 million respectively).

(g) Financial debt as defined under the agreement includes all Serinus long term debt. EBITDA as defined under the agreement is for the trailing 12 months and is defined as oil and gas revenue, net of royalties less production expenses, general and administrative expenses and transaction costs.

(h) Serinus financial debt totalled \$52.0 million as at March 31, 2015. EBITDA totalled \$64.6 million for the 12 month period ending March 31, 2015 (December 31, 2014: \$37.3 million and \$76.5 million respectively).



***EBRD–Ukraine Loan Facility***

In the second quarter of 2011, KUB Gas signed an agreement with the EBRD for a loan facility of up to \$40.0 million with proceeds of the loan to be used to fund development of the licenses in Ukraine. The financing bears interest in two components, one being LIBOR + 6% and the other being a fee based on incremental revenues with the total rate not to exceed 19%. The loan proceeds were to be advanced in two tranches, with \$23.0 million having been advanced in 2011 and the remaining \$17.0 million available to be advanced in 2012. On May 20, 2013, availability of the second tranche of \$17.0 million expired without any drawdown in accordance with the terms of the loan agreement. The loan balance outstanding is to be repaid in thirteen equal semi-annual payments that commenced in July 2012. Serinus, as the indirect majority owner of KUB-Gas, provided a guarantee for the entire amount of the loan outstanding from time to time.

At March 31, 2015, \$2.4 million of principal and interest was outstanding (December 31, 2014: \$2.4 million). A repayment of \$1.8 million was made in December 2014 in advance of the instalment due in January 2015 due to issues with obtaining USD in Ukraine.

***EBRD – Ukraine Loan Facility Covenants***

In accordance with the EBRD – Ukraine Loan Facility there are specified financial ratios, as follows. In 2014, the working capital covenant relating to the EBRD Ukraine loan was removed from the loan agreement.

	As at March 31, 2015	As at December 31, 2014
Debt Service Coverage Ratio (not less than 1.3:1) (a)		
- Ukraine (b)	7.5	5.3
Financial Debt to EBITDA (no more than 3) (c)		
- Ukraine (d)	0.1	0.1
Compliance	YES	YES

(a) This calculation is equal to KUB Gas LLC trailing twelve month adjusted cash flows divided by debt service costs. Cash flows are adjusted as required by the agreement for interest expense and capital expenditures net of loan proceeds from borrowings.

(b) KUB Gas LLC adjusted cash flow was UAH 535.0 million for the 12 month period ended March 31, 2015. The debt service costs for the same period were UAH 71.2 million (December 31, 2014: UAH 483.9 million and UAH 91.9 million respectively).

(c) Financial debt as defined under the agreement includes current and long term loans. EBITDA as defined under the agreement is for the trailing 12 months and is defined as oil and gas revenue, net of royalties less production expenses, general and administrative expenses and transaction costs.

(d) KUB Gas LLC financial debt totalled UAH 61.9 million as at March 31, 2015. EBITDA totalled UAH 669.5 million for the 12 month period ending March 31, 2015. (December 31, 2014: UAH 42.3 million and UAH 709.6 million respectively).

**SHARE DATA**

The Company is authorized to issue an unlimited number of common shares of which 78,629,941 common shares and 2,889,000 options with a USD exercise price and 141,000 options with a Canadian Dollar (“CAD”) exercise price to purchase common shares were outstanding as at March 31, 2015.

The Company is also authorized to issue an unlimited number of preferred shares. No preferred shares are issued or outstanding.

Summary of common shares outstanding:

	Number of Shares	Carrying Amount
Balance, December 31, 2014	78,629,941	\$ 344,479
Issued on exercise of stock options	-	-
Balance, March 31, 2015	78,629,941	\$ 344,479

**Summary of options outstanding:**

The following table summarizes information about common share purchase options outstanding at March 31, 2015:

	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, 2014	5,642,400	\$ 4.39	141,000	\$ 2.39
Expired/Cancelled	(2,753,400)	\$ 4.05	-	-
Balance, March 31, 2015	<u>2,889,000</u>	<u>\$ 4.72</u>	<u>141,000</u>	<u>\$ 2.39</u>

During Q1 2015, the Company cancelled 2,712,200 options at an average exercise price of \$4.05.

The following tables summarize information about the USD and CAD options outstanding as at March 31, 2015:

USD denominated options:

Exercise price (US\$)	Outstanding	Exercisable	Weighted average contractual life remaining, years
\$ 2.85 - \$ 3.50	270,000	180,002	3.41
\$ 3.51 - \$ 4.00	774,400	774,400	0.89
\$ 4.01 - \$ 5.00	860,600	637,734	3.43
\$ 5.01 - \$ 6.20	984,000	984,000	0.17
\$ 4.72	<u>2,889,000</u>	<u>2,576,136</u>	<u>1.64</u>

CAD denominated options:

Exercise price (CAD\$)	Outstanding	Exercisable	Weighted average contractual life remaining, years
\$ 1.56 - \$ 2.50	74,000	24,667	4.59
\$ 2.51 - \$ 3.22	67,000	25,333	4.22
\$ 2.39	<u>141,000</u>	<u>50,000</u>	<u>4.41</u>

At the date of issuing this report, the following are the options outstanding and changes to executives and officers options owned since March 31, 2015, up to the date of this report:

Name of Director/Executive Officer/Key Person	<b>Changes to Option Ownership</b>			
	Options held as at May 13, 2015	Shares held at March 31, 2015	Change in share ownership	Shares held at May 13, 2015
Timothy M. Elliott	1,153,600	600,000	-	600,000
Norman W. Holton	285,000	337,791	-	337,791
Manoj Narender Madnani	51,000	37,568	-	37,568
Michael A. McVea	-	10,000	-	10,000
Gary King	-	6,750	-	6,750
Stephen Akerfeldt	-	-	-	-
Helmut Langanger	-	-	-	-
Sebastian Kulczyk (1)	-	-	-	-
Jock M. Graham	285,000	146,258	-	146,258
Edwin A. Beaman	48,000	55,610	-	55,610
Aaron LeBlanc	-	-	-	-
Evgenij Iorich (2)	-	3,415	-	3,415
Tracy Heck	-	-	-	-
Jakub Korczak	90,000	-	-	-
Alec Silenzi	-	10,000	-	10,000
	<u>1,912,600</u>	<u>1,207,392</u>	<u>-</u>	<u>1,207,392</u>

- 1) Mr. Kulczyk holds a senior executive position with KI. KI owns 39,909,606 Shares. By virtue of his position with KI, Mr. Kulczyk is deemed to have direction over such Shares in addition to those Shares that are shown above.
- 2) Mr. Iorich holds a position with Pala Investments, which is related to Pala Assets Holdings Limited ("Pala"). Pala owns 5,880,484 Shares. By virtue of his position with Pala Investments, Mr. Iorich is deemed to have direction over such Shares in addition to those Shares that are shown above.

As at the date of issuing this report, management is only aware of two shareholders holding more than 5% of the common shares of the company. KI owns 50.8% and Pala Holdings owns 7.5% of the common shares issued at March 31, 2015.

#### **CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The contractual obligations as at March 31, 2015 are as follows:

	Within 1 Year	2-3 Years	4-5 Years	+5 Years	Total
Office Rental	\$ 497	\$ 947	\$ 915	\$ 435	\$ 2,794
EBRD loan-Ukraine	2,385	-	-	-	2,385
EBRD loan-Tunisia	3,333	6,667	6,667	21,583	38,250
EBRD loan - Romania	1,128	4,512	4,512	593	10,745
Total contractual obligations	<u>\$ 7,343</u>	<u>\$ 12,126</u>	<u>\$ 12,094</u>	<u>\$ 22,610</u>	<u>\$ 54,174</u>

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

#### ***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 \$1.0 million during 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. KUB-Gas's potential capital expenditure relate to the North Makeevskoye license, where the Company may perform testing operations on the NM-3 exploration well for retention of the license.

### ***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 March 31, 2015 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***

The Company has a 60% interest in a 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 drilling, completion, and testing of Moftinu 1001 and 1002bis, along with the 180 square kilometer 3D seismic program in the Santau area and associated filings to the government, fulfils both the government and partner work commitments for the Satu Mare concession, phase 2. Satisfactory completion of Phase 2 entitles the Company to request an extension of the exploration period by an additional period of three years and provide a minimal work schedule. The Company has commenced discussions with the National Agency for Mineral Resources ("NAMR") with respect to the work program. Written confirmation of the extension is expected to be received from NAMR in May 2015.

In addition, Serinus is responsible for a \$6.0 million guarantee, without cash or any other asset pledged as security, issued by Winstar in favor of the Romanian National Agency for Mineral Resources in respect of a Winstar Romanian subsidiary's minimum work commitments for the Phase 2 exploration period.

### ***Office Space***

The Company had a lease agreement for office space in Calgary, Canada which expires on November 30, 2020.

### **OFF BALANCE SHEET ARRANGEMENTS**

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Serinus was not party to any off balance sheet arrangements during the reporting or comparative period.

### **RELATED PARTY TRANSACTIONS**

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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, general, accounting and administrative services to the Company at its offices in Dubai on a cost basis. For the three months ended March 31, 2015, the fees totalled \$0.2 million, (Q1 2014: \$0.2 million). At March 31, 2015, \$47 thousand was owed to Nemmoco (December 31, 2014: \$67 thousand).

Loon Energy Corporation ("Loon Energy"), a publicly traded Canadian corporation with no employees. Serinus and Loon Energy are related as they have five common directors and officers and the same principal shareholder. Management and administrative services are provided by the management and staff of Serinus. For the three months ended March 31, 2015, these fees totalled \$2 thousand (Q1 2014: \$3 thousand). At March 31, 2015, Loon Energy owed \$nil (December 31, 2014: \$nil) to Serinus for these services.

Serinus 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 and Serinus have entered into an indemnification agreement in respect of the Loon Guarantee. The maximum liability to the

Company that may arise from the Loon Guarantee is based on the first exploration phase as the minimum work program for the first phase has been completed, the Company does not anticipate any exposure to the guarantee.

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

## **2015 OUTLOOK**

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The Company expects its 2015 capital expenditures program to be negatively impacted by tighter fiscal terms in Ukraine and lower commodity prices. Serinus currently anticipates \$17 million (net to Serinus) of total capital expenditures for 2015. The major projects include:

- Ukraine – Completion, testing and tie in of the M-22 well
- Ukraine – Field compression for Olgovskoye field.
- Tunisia – Drilling completion and testing of Win-13
- Tunisia - Installation of coiled tubing in ECS-1
- Romania – Completion and testing of Moftinu-1001 and Moftinu-1002bis

Most of these items have been completed to date in 2015 or will be shortly, with the exception of the Olgovskoye compression project (June). Capital expenditures in Tunisia and Romania will be funded through the Company's financing arrangements with the EBRD. Capital expenditures in Ukraine will be funded by Ukraine cash flow.

## **DIVIDENDS**

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To date, the Company has not paid dividends 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.

## **SUMMARY OF QUARTERLY RESULTS**

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The following table sets forth summarized quarterly financial information for the most recent eight financial quarters:

	<b>Q1 2015</b>	<b>Q4 2014</b>	<b>Q3 2014</b>	<b>Q2 2014</b>	<b>Q1 2014</b>	<b>Q4 2013</b>	<b>Q3 2013</b>	<b>Q2 2013</b>
Oil and gas revenue	\$ 25,155	\$ 40,422	\$ 46,407	\$ 41,635	\$ 35,863	\$ 43,700	\$ 45,394	\$ 28,929
Netback (\$/boe)	\$ 16.79	\$ 25.18	\$ 34.19	\$ 44.38	\$ 38.27	\$ 48.69	\$ 46.60	\$ 37.80
Earnings (loss) for the period								
Common shareholders	\$ (4,268)	\$ (41,295)	\$ 3,793	\$ 5,344	\$ 1,657	\$ (79,740)	\$ 8,147	\$ 829
Non-controlling interest	\$ 145	\$ (684)	\$ 2,758	\$ 3,389	\$ 1,077	\$ 2,837	\$ 3,815	\$ 2,352
Per share - basic and diluted attributable to common shareholders	\$ (0.05)	\$ (0.53)	\$ 0.50	\$ 0.07	\$ 0.02	\$ (1.01)	\$ 0.10	\$ 0.02
Average daily production (boe) (gross)	5,618	7,119	7,556	6,531	6,351	6,639	6,318	4,541
Average daily production (boe) (net to Serinus)	4,406	5,413	5,640	4,965	4,849	5,079	4,892	3,179

- In Q2 2013, the Company's oil and gas revenue and average daily production was entirely from the Ukrainian operations. During this period, the operations had a steady increase through capital expenditure investments that increased production and oil and gas revenues.
- At the end of Q2 2013, the Company completed the Winstar acquisition which resulted in substantial increases to oil and gas revenue, and average daily production.
- In Q4 2013, the earnings were negatively impacted by an impairment charge of \$83.0 million related to Brunei Block L.
- In Q3 2014, the netback was negatively impacted by the increase in royalties in Ukraine effective August 1, 2014.
- In Q4 2014, the netback was negatively impacted by lower commodity prices, the increase in royalties in Ukraine and an impairment charge of \$54.9 million, \$5.6 million related to Ukraine and \$49.3 million related to Tunisia.

In Q1 2015, revenues were impacted by lower production in Ukraine, lower commodity prices and increase in royalties in Ukraine.

**RISK FACTORS**

Serinus takes a proactive approach to identifying inherent risks to its business and operations through the consistent identification of risks in day to day operations enabling the appropriate decision making. Below is a list of what Serinus has identified as its principal risks. A principal risk is an exposure that has the potential to materially impact the ability of Serinus to meet objectives. Some risks are common to operations in the oil and gas industry, while others are specific to Serinus and its operations in emerging markets. The risks below are not meant to be an exhaustive or a static list, nor should they be taken as a complete summary of all the risks associated with our business. If any of the these risks or other risks occur, our business, financial condition, results of operations and cash flows could be adversely affected in a material way.

**Commodity Price Risk**

Serinus' financial performance is impacted by prices obtained for crude oil, natural gas and natural gas liquids. The prices of all of these commodities are influenced by global and regional supply and demand which can result in price volatility. Prices are also affected by factors such as economic growth, transportation constraints, political developments, decisions made by the Organization of Petroleum Exporting Countries (OPEC) members and weather. These dynamics can affect different types of products differently.

Specifically, Serinus is exposed to risks due to fluctuations in the price of natural gas in Ukraine and the market price of Brent crude oil. The domestic gas price within Ukraine is set by the National Electricity Regulatory Commission of Ukraine by reference to the Russian imported gas price. While in Tunisia, oil prices are based on a premium or discount to the market price of Brent crude oil. The Company has no commodity hedge program in place which could potentially mitigate the price risk.

Given recent global economic conditions, there has been volatility and we expect continued uncertainty in prices in the near time. A prolonged period of low prices could affect the value of assets and the level of capital expenditure, thus having a material adverse effect on Serinus and its operations. Serinus currently does not have a commodity hedge program in place which could potentially partially mitigate price risk.

**Financial Risks**

Financial risks include foreign currency exchange risk, interest rate risk, credit risk, and liquidity risks.

***Foreign currency exchange risk***

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar, Polish zloty, Ukraine UAH, Romanian leu, Tunisian dinar, the Euro and the United States dollar. At March 31, 2015 the Company's primary currency exposure related to Canadian dollar ("CAD"), Ukraine UAH ("UAH"), Tunisian dinar ("TD"), and Romanian leu ("LEU") balances. The following table summarizes the Company's foreign currency exchange risk for each of the currencies indicated:

	March 31, 2015			
	CAD	UAH	TD	LEU
Cash and cash equivalents	177	121,981	4,625	263
Accounts receivable	177	68,317	20,887	4,256
Income tax receivable	-	10,871	5,391	-
Prepaid expenses	56	15,000	769	178
Accounts payable and accrued liabilities	(1,322)	(261,686)	(31,250)	(18,143)
Net foreign exchange exposure	\$ (912)	\$ (45,517)	\$ 422	\$ (13,446)
US \$ equivalent at period end exchange rate	\$ (719)	\$ (1,939)	\$ 215	\$ (3,246)

**Serinus Energy Inc. Q1 2015 MD&A**  
**(Thousands of US dollars, except as noted)**

Based on the net foreign exchange exposure at the end of the period, if these currencies had strengthened or weakened by 10% compared to the U.S. dollar and all other variables were held constant, the after tax net earnings would have decreased or increased by approximately the following amounts:

	As at March 31 2015	As at December 31 2014
Canadian dollar	\$ (91)	\$ (54)
Ukraine UAH	(4,552)	(6,337)
Tunisian dinar	42	489
Romanian leu	(1,335)	(877)
Total	<u>\$ (5,936)</u>	<u>\$ (6,779)</u>

The following table summarizes the Company's foreign currency exchange risk of US Dollar balances in Ukraine:

	As at March 31 2015	As at December 31 2014
Cash and cash equivalents	\$ 64	\$ 67
Loan with parent	(1,355)	(1,340)
Loan with EBRD	(2,628)	(2,590)
Accounts payable and accrued liabilities	(802)	(959)
Net foreign exchange exposure	<u>\$ (4,721)</u>	<u>\$ (4,822)</u>

A 10% weakening of the UAH compared to the US Dollar and all other variables were held constant, would result in a decrease in the after tax earnings by approximately \$0.05 million (December 31, 2014: \$2.2 million).

Earnings are also impacted by fluctuations in the UAH for US Dollar balances outstanding within Ukraine subsidiary, KUB-Gas, which has the UAH as its functional currency. As a result of a 31% deterioration of the UAH versus the US dollar during the period ended March 31, 2015, the translation of balances denominated in currencies other than UAH at period end into UAH resulted in a foreign exchange loss of \$2.0 million (Q1 2014: \$3.6 million).

***Interest rate risk***

The Company maintains its cash and cash equivalents in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon.

Interest on the EBRD loan for Ukraine is based on two components: LIBOR plus a margin, and a fee based on incremental revenue growth, up to a stated maximum of 19%. The interest on the EBRD loan for Tunisia is based on LIBOR and has a portion based on incremental revenue with a floor of 8% and ceiling of 17% relating to the convertible loan portion. A 1% change in the LIBOR would affect interest expense by \$24 thousand based on the debt balance outstanding at March 31, 2015 (December 31, 2014: \$24 thousand).

***Credit risk***

The Company's cash and cash equivalents and restricted cash are held with major financial institutions. Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash, cash equivalents and restricted cash. With the dividend restriction in Ukraine, cash balances may accumulate in Ukraine. As at March 31, 2015, \$5.6 million of cash and restricted cash is held in Ukraine (December 31, 2014: \$5.6 million).

The Company's accounts receivable consist of receivables from other joint venture partners that are anticipated to be applied against future capital expenditures, receivables for revenue in Ukraine and Tunisia, commodity taxes recoverable from the federal government of Canada and interest earned on restricted cash deposits, for which credit risk is assessed as being low as the funds are on deposit with major financial institutions.

Management believes that the Company's exposure to Ukrainian and Tunisian credit risk is manageable, as commodities sold are under contract or payment within 30 days. In Ukraine, credit evaluations are performed on customers requiring credit over a certain amount. With the current political and fiscal uncertainty in Ukraine, the risk of non-payment has

increased, which is being closely monitored and assessed by management. In Tunisia, oil is sold with reputable parties and collection is prompt based on the individual terms with the parties. At March 31, 2015, the Company had \$1.0 million (December 31, 2014: \$1.4 million) of receivables that were considered past due. The majority of these amounts are due from large well established customers and management believes the balances will be collected. For the period ended March 31, 2015, the Company has two customers with sales representing 42% and 12% of total sales.

Management has no formal credit policy in place for customers outside Ukraine and the exposure to credit risk is approved and monitored on an ongoing basis individually for all significant customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Company does not require collateral in respect of financial assets.

### ***Liquidity risk***

Liquidity risk is the risk that Serinus will not be able to pay financial obligations when due. There are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. The Company mitigates this risk through monitoring its liquidity position regularly to assess whether it has the resources necessary to fund planned exploration commitments on its petroleum and natural gas properties or that viable options are available to fund such commitments. Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required to retain concession licences, farm-out arrangements and securing new equity or debt capital.

### **Operational, Environmental and Safety Risks**

Serinus' operations require significant investment in both the exploration and evaluation and operation and maintenance of facilities. Associated are the risks relating to environmental and safety. Keeping employees and worksites safe and secure and to preserving and protecting the environment, is of paramount importance. Operational hazards include fires, explosions, blow-outs, power outages, severe weather conditions and the release of harmful substances such as oil spills, gas leaks. Any of these hazards can interrupt operations, cause injury or death, damage property, equipment or/and the environment. Losses resulting from the occurrence of any of these risks could have a material adverse effect on operations.

To mitigate these risks, the Company evaluates projects for financial, geological and engineering risk and mitigation plans are developed, including a comprehensive insurance program. There is the risk that insurance may not provide adequate coverage in all circumstances, nor are all risks insurable.

### **Project risk**

There are risks associated with exploration, evaluation and execution of oil and gas projects.

Risks in exploration include failure to acquire or find additional reserves which will, at minimum, result in erosion of the Company's existing reserves as these reserves are depleted through ongoing production, and may negatively impact the Company's ability to grow its asset base in the future. There is no assurance that Serinus will be able to find suitable properties to acquire or participate in the future. Serinus uses proactive project planning on existing licences and performs extensive business development dedicated to identifying and pursuing potential opportunities. Further, all investment opportunities are reviewed using careful consideration and technical analysis.

Risks in the evaluation of future oil and natural gas properties may involve unprofitable efforts from dry wells as well as from wells that are productive but do not produce sufficient production to return a profit after drilling, completing, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of costs spent. To mitigate this, Serinus uses reputable industry specialists and monitors field performance on a daily basis

Risks involved in the execution of projects relate primarily to engineering and a failure in the specification, design or technology of a project; the construction and a failure in the ability to build the project in the time and cost budgeted; and lastly the commissioning and start up a failure of the facility to meet performance targets. To mitigate these risks, Serinus estimates costs and an expectation for all projects and at each stage evaluates the project to ensure financial viability. There are numerous factors beyond our control such as commodity prices, weather, availability of equipment, unexpected cost



increases, accidental events, regulatory changes which could have a negative impact on Serinus ability to execute projects on time and budget.

The oil and natural gas industry in emerging markets where Serinus operates is not as developed as the oil and natural gas industry in developed nations such as Canada. As a result, drilling and development operations may take longer to complete and may cost more than similar operations in a developed nation. As well, the availability of technical expertise, specific equipment and supplies may be more limited. Such factors subject operations in emerging markets to unique risks not experienced by others.

### **Political and Economic Risks**

Serinus operates in emerging markets that are subject to political and economic risks. Political stability and the uncertainty regarding political decisions may result in: the possibility of war/revolution, border disputes, expropriation, renegotiation or modification of existing contracts, import, export and transportation restrictions, change in regulations and tariffs, tax increases, loss of subsidy, change of market policy and laws regarding resource extraction. As a result of political instability, economic challenges that may ensue include slow growth, high inflation and unfavorable fluctuations in exchange rates.

In 2015, the Company's production of natural gas was impacted by the current situation in Ukraine and production levels decreased from prior year. In November 2014, The Ukraine government issued three decrees which reserved a large share of the natural gas market for the state owned National Joint Stock Company, Naftogaz ("Naftogaz") through legislation. In Q1 2015, the Company experienced the practical effects of the legislation, as the remaining market was insufficient to accept all available gas, resulting in cutbacks by private producers. A Ukraine court subsequently overturned these regulations, and this decision was subsequently upheld on appeal. The government appealed again, but on March 31, 2015, the High Administrative Court of Ukraine dismissed the government's claims in their entirety. The market has started to readjust with increased volumes in April.

The development of the Company's oil and gas properties has been impacted by the security situation in eastern Ukraine as drilling and exploration activity was temporarily suspended in the third quarter of 2014. The Company completed the drilling of the M-22 on the Makeevskoye license in the fourth quarter of 2014 and is currently completing and testing the various zones encountered. At this time, no additional exploration and development projects are planned for 2015 beyond a field compression project on the Olgovskoye field. The Company may consider additional capital expenditures in 2015 subject to the availability of cash flow from operations and the security situation. The Company may also resume testing operations on the NM-3 exploration well that are required to be performed by September 30, 2015 to retain the North Makeevskoye license. Should the Company not be able to perform testing operations on the NM-3 well, the North Makeevskoye license may be subject to relinquishment. In the longer term, should the Company not be able to recommence active exploration and development activity, production and reserve volumes could be negatively impacted.

Management continues to proactively manage the Company's operations in Ukraine in response to the current political, economic and security situation and mitigate the risks on the Company's operations. However, operating in Ukraine in the current environment has increasing challenges. As the situation in Ukraine changes, it may adversely impact assumptions used to prepare the financial statements. Changes in assumptions are recognized in the financial statements prospectively.

### **Regulatory Risks**

Serinus is subject to a range of laws and regulations imposed by a number of and various levels of government and regulatory bodies in the jurisdictions in which it operates. The Company believes it fully complies with or exceeds all government laws, regulations and industry standards in its countries of operation; however these regulations are subject to intervention by governments that can affect future exploration, production and abandonment of fields and licenses. Rights and licenses can be cancelled, may expire or be expropriated and regulations can change. Certain licenses have restrictions which may not be removed on a timely basis. Due to the nature of emerging markets and changing regulations, regulatory changes can have a material adverse effect on operations in a way beyond what we can forecast.

## **LITIGATION**

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Neither the Company nor any of its subsidiaries are involved in any proceedings before a court, relevant arbitration body or public administrative authority concerning payables or debt of the Company or its subsidiaries whose value, individually or in aggregate, would be equal to or greater than 10% of the Company's equity.

## **CRITICAL ACCOUNTING ESTIMATES**

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The preparation of financial statements in conformity with IFRS 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 management's 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.

The list of critical accounting estimates was included in the Management, Discussion and Analysis for the year ended December 31, 2014 and those listed critical accounting estimates apply to the three months ended March 31, 2015.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

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In July 2014, the IASB issued IFRS 9, Financial Instruments to replace IAS 39 which provides a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard is effective for the Company for annual periods beginning on January 1, 2018, with required retrospective application and early adoption permitted. The adoption of the standard is not expected to have a material impact on the Company's annual consolidated financial statements.

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" to replace IAS 18 which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for the Company for annual periods beginning on January 1, 2017, with required retrospective application and early adoption permitted. The extent of the impact of adoption of the standard has not yet been determined.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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The preparation of this MD&A is supported by a set of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as at March 31, 2015.

Disclosure controls and procedures as defined in National Instrument 52-109 means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure;

Internal control over financial reporting means a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's Generally Accepted Accounting Principles ("GAAP") and includes those policies and procedures that:

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

(b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and

(c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements.

The Company's Chief Executive Officer and Chief Financial Officer of the Company have designed DC&P and ICFR, or caused them to be designed under their supervision, to provide reasonable assurance that all material information required to be disclosed by Serinus in its annual filings and interim filings are recorded, processed, summarized and reported within the time periods specified in applicable securities legislation, and to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS. The ICFR is based on the framework in "Internal Control Over Financial Reporting" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992.

The board of directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee meets at least annually with the Company's external auditors to review accounting, internal control, financial reporting, and audit matters.

There have been no material changes to the Company's internal controls over financial reporting since December 31, 2014. Under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, Serinus conducted an evaluation of the effectiveness of its DC&P and ICFR as at March 31, 2015. Based on this evaluation, the Officers conclude that as at March 31, 2015 the DC&P and ICFR are effective.

#### **NON-IFRS MEASURES**

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The financial information presented in this MD&A has been prepared in accordance with IFRS except for the terms such as "funds from operations", "netback", "net debt", "working capital" and certain terms under the loan covenants which are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. These non-IFRS measures are presented for information purposes only and should not be considered an alternative to, or more meaningful than information presented in accordance with IFRS. Management believes these may be useful supplemental measures as they are used by the Company to measure operating performance and to evaluate the timing and amount of capital required to fund future operations. The Company's method of calculating these measures may differ from those of other companies and, accordingly, they may not be comparable to measures used by other companies.

Serinus calculates "funds from operations", "netback", "net debt", "EBITDA" and "working capital" as applicable to its most closely related IFRS measure.

#### **FORWARD-LOOKING STATEMENTS**

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This MD&A contains forward-looking statements. These statements relate to future events or future performance of the Company. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "predict", "seek", "propose", "expect", "potential", "continue", and similar expressions, are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Company's current views with respect to certain events, and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance, or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated, or expected.

Specific forward-looking statements in this MD&A, among others, include statements pertaining to the following:

- factors upon which the Company will decide whether or not to undertake a specific course of action;
- world-wide supply and demand for petroleum products;
- expectations regarding the Company's ability to raise capital;
- treatment under governmental regulatory regimes; and

- Commodity prices.

With respect to forward-looking statements in this MD&A, the Company has made assumptions, regarding, among other things:

- the impact of increasing competition;
- the ability of partners to satisfy their obligations;
- the Company's ability to obtain additional financing on satisfactory terms; and
- the Company's ability to attract and retain qualified personnel.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- general economic conditions;
- volatility in global market prices for oil and natural gas;
- competition;
- liabilities and risks, including environmental liability and risks, inherent in oil and gas operations;
- the availability of capital;
- geopolitical volatility in the countries of operations; and
- alternatives to and changing demand for petroleum products.

Furthermore, statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitable in the future.

The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. These statements speak only as of the date of this MD&A.

#### **ABBREVIATIONS**

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The following is a list of abbreviations that may be used in this MD&A:

<i>Crude Oil and Natural Gas Liquids</i>		<i>Natural Gas</i>	
bbl	barrel	Mcf	thousands of cubic feet
bbl/d	barrels per day	MMcf	millions of cubic feet
Mbbl	thousands of barrels	Mcf/d	thousands of cubic feet per day
boe	barrels of oil equivalent	MMcf/d	millions of cubic feet per day
boe/d	barrels of oil equivalent per day	Mcfe	thousands of cubic feet of equivalent
Mboe	thousands of barrels of oil equivalent		

#### **MEASUREMENT CONVERSIONS**

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Certain crude oil and natural gas liquids volumes have been converted to Mcfe or MMcfe on the basis of one bbl to six Mcf. Also, certain natural gas volumes have been converted to boe or Mboe on the same basis. Any figure presented in Mcfe, MMcfe, boe or Mboe may be misleading, particularly if used in isolation. A conversion ratio of one bbl of crude oil or natural gas liquids to six mcf of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent value equivalency at the wellhead.

#### **INVESTOR INFORMATION**

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Additional information regarding Serinus and its business and operations is available at [www.sedar.com](http://www.sedar.com). Information is also accessible on the Company's website at [www.serinusenergy.com](http://www.serinusenergy.com).

We welcome questions from interested parties. Contact should be directed to Serinus' head office via address: 1500, 700 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3J4, phone: +1 403 264-8877 or e-mail: [rvaniw@serinusenergy.com](mailto:rvaniw@serinusenergy.com).