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Current Report No. 27/2015
Date: 2015-08-14
Issuer's trading name: SERINUS ENERGY INC.
Title: Q2 2015 Financial and Operating Results
Legal basis: other regulations

Content:
Pursuant to Article 62.8 of the Act of 29 July 2005 on Public Offering […] the Management of SERINUS ENERGY INC. ("Serinus", "SEN" or the "Company") informs that in Canada via the SEDAR system it has published information about its financial and operating results for the quarter ended June 30, 2015.

Second Quarter Highlights

- Total working interest production (consisting of the Company's production in Tunisia plus its 70% interest in Ukraine) in the second quarter was 3,993 boe/d, down 20% vs. Q2 2014, and 9% lower than the 4,406 boe/d in Q1 2015. The major cause of the decline was the shut-in of the Sabria Field due to protests in the area. Production resumed in late July and rates are approaching the pre-shut in levels of approximately 700 boe/d (SEN WI, 1,550 boe/d gross).
- Gross revenues for the quarter were $22.3 million, down 12% vs. Q1 2015 and 46% from Q2 2014. The shut-in of the Sabria field was the primary factor for the drop relative to Q1 2015. Lower world commodity prices and lower production in Ukraine due to government interference in the gas market also contributed to the shortfall relative to Q2 2014. The portion allocable to SEN shareholders was $17.7 million vs. $32.8 million last year. The balance is attributable to the owner of the remaining 30% of KUBGAS Holdings Limited not held by Serinus. KUBGAS Holdings owns 100% of KUB-Gas LLC ("KUB-Gas"), which owns 100% of and operates the Ukraine Licences.
- Netbacks in Ukraine were substantially unchanged at $11.50/boe (1.92/Mcfe) in Q2 vs. $11.53/boe ($1.92/Mcfe) in Q1 2015. The average gas price decreased by 9% vs. the first quarter and operating costs increased by 26%, but these were offset by an 18% reduction in the effective royalties as the two year relief period for wells drilled after August 1, 2014 was reinstated, thereby reducing the royalties paid on gas from the M-17 well.
- Tunisian netbacks fell from $30.53/boe in Q1 2015 to $24.32/boe in Q2. The Sabria Field shut-in caused a 51% increase in per boe operating expenses as many of those costs are fixed. This was partially offset by slightly higher commodity prices.
- Funds from Operations in the second quarter were $5.2 million, up 21% compared to $4.3 million in Q1 2015 and down 77% to vs. $22.2 million in Q2 2014. The amount allocable to SEN shareholders was $4.5 million. Lower production and netbacks were more than offset by realized foreign exchange gains, primarily due to a partial recovery in the UAH/USD rate.
- The net income for the quarter, before currency charges, was $0.5 million ($0.05 million attributable to SEN shareholders), as compared to an $8.7 million profit in Q2 2014 ($5.3 million attributable to SEN shareholders). The major contributing factors were the lower production rates and commodity prices and higher royalties.
- Capital expenditures for the quarter were $3.7 million vs. $16.1 million for the same period in 2014.

Operational Highlights & Update

- Production for the second quarter of 3,993 boe/d decreased by 9% vs. Q1 2015 (4,406 boe/d). Production in Tunisia was negatively affected by the shut-in of the Sabria Field at the end of May. Gas production in Ukraine remains comparable to Q1 2015 and continues to suffer from lingering effects of legislation that reserved a large portion of the natural gas market for the state owned National Joint Stock Company Naftogaz ("Naftogaz"). These laws were challenged in the Ukrainian courts, and after two appeals, the High Administrative Court of Ukraine dismissed the government's claims in their entirety on March 31, 2015, but the market continues to be slow to re-adjust. Management estimates that sales volumes in Ukraine were approximately 2 MMcf/d (1.4 MMcf/d SEN WI) below productive capacity.

- Overall production from Tunisia for Q2 was 1,206 boe/d, 24% lower than the 1,579 boe/d in Q1 2015. Oil averaged 951 bbl/d, and gas was 1.5 MMcf/d. The major cause of this decrease was shut-in of the Sabria Field.
- Winstar Satu Mare S.A. ("Winstar"), a wholly owned subsidiary of Serinus, received a 3 year extension to the exploration period for the Satu Mare Concession ("Satu Mare") in northwest Romania. Work obligations pursuant to the extension include the drilling of two wells, and, at the Company's option, either the acquisition of 120 km2 of new 3D seismic data or to drill a third well. The two firm wells must be drilled to minimum depths of 1,500 and 2,000 metres respectively, and if so elected, the third well to a depth of 2,500 metres. The extension was approved by the National Agency for Mineral Resources ("NAMR") and is subject to ratification by several government ministries.
- Winstar currently holds a 60% interest in Satu Mare. The holder of the remaining 40% has given notice pursuant to the operating agreement that it intends to withdraw from Satu Mare, and assign its interest in the joint operating agreement to the Company. In accordance with the provisions of the concession agreement, the other interest holder has executed an agreement that among other things, provides that it will hold the 40% interest in trust for Winstar until such time as it could formally transfer that interest to WInstar, giving the Company an effective 100% working interest.
- In April, 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. Management estimates that the P50 recoverable resources from this discovery are 18 Bcf.
- Test results from the Moftinu-1002bis well indicated a tight formation with formation damage, consistent with apparent porosities observed on logs and the use of heavy fluids to control washout and hole collapse during drilling. The well produced an average of 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 estimates that the tested zones contain 27 Bcf (P50) of original gas in place, although eventual recovery factors will be contingent upon identifying suitable drilling and completion techniques to allow commercial production rates.
- Production from the Winstar-13 ("WIN-13") well commenced on April 28. Rates varied between 170 – 235 boe/d until the Sabria Field was shut-in in late May. The Company plans to collect additional production and pressure data on WIN-13 now that is has resumed production and, if the results so indicate, initiate a remedial program.
- The M-22 well in Ukraine has been suspended and added to the list of wells being considered for fracture stimulation (see Outlook – Ukraine below). The S13, S13a and S13b zones 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 has been suspended with a wellhead and tubulars appropriate for frac'ing. If successful, M-22 will qualify for the reduced royalty rate of 30.25% for its first two years of production under the current royalty regime (see also Ukraine Legislative Developments below).
- In July, a workover rig moved on to the NM-3 well, originally drilled in 2013, which found small amounts of oil in the Visean formation. Additional perforations were shot in a higher interval, but there were no signs of hydrocarbons. The Company understands that this operation will fulfill the work obligations required to retain the North Makeevskoye licence and KUB-Gas staff have commenced the extension application process.

Ukraine Legislative Developments

Although subsequently overturned by the Ukrainian courts, three bills passed in November 2014, which cumulatively required 170 of the largest gas consumers in Ukraine to purchase their gas solely from Naftogaz, continue to affect the market. With a large portion of the natural gas market unavailable, competition intensified between private producers for the few remaining creditworthy customers, inhibiting both prices and volumes. Management estimates that KUB-Gas' total sales volumes were approximately 2 MMcf/d below its productive capacity for the second quarter. The Limit Price (the maximum price set by regulators each month that can be charged to industrial customers) averaged 6,870 UAH/Mcm (approximately $8.92/Mcf) during the second quarter, but the increased competition resulted in a realized price of $7.14/Mcf. As royalties are calculated on the Limit Price rather than the actual received, effective royalty rates were higher than the nominal published rates.

On January 1, 2015, the government made permanent the royalty rates of 55% and 45% for gas and oil respectively, and eliminated the provision for the "lowering coefficient" for wells commencing production after August 1, 2014, under which the royalty rate for gas from new wells was reduced to 30.25% for the first two years of production. On March 3, 2015, a bill was enacted reinstating that relief period effective April 1, 2015, making KUB-Gas' M-17 well eligible for the lower rate. With the requalification of M-17 plus given the disparity between the Limit Price and realized prices as mentioned above, the effective aggregate royalty rate in Q2 was 57.4%, down from 63.9% in Q1.

On June 4, 2015, the National Bank of Ukraine announced that the restrictions on foreign currency transactions first imposed in September 2014. (and later expanded) have been extended until September 3, 2015.

Outlook

Average daily production (SEN WI) for the third quarter to date was approximately 3,970 boe/d (966 bbl/d of oil, 17.7 MMcf/d of gas, 55 bbl/d of liquids). Since the re-start of the Sabria Field in late July, production has averaged 4,392 boe/d (1,240 bbl/d of oil, 18.6 MMcf/d of gas, 57 bbl/d of liquids).

Ukraine

The Limit Price for August at which gas can be sold to industrial customers in Ukraine is 6,600 UAH per Mcm. At the current exchange rate of 21.45 UAH/USD, that is equivalent to $8.67/Mcf. The price that KUB Gas receives has been 15% - 20% lower, reflecting the margins of the traders through whom the gas is sold, and lingering effects of the erstwhile gas market restrictions.

The Company is considering hydraulic stimulations for the O-11, O-15 and M-22 wells. If approved, the campaign will take place during the fall of 2015.

A compression unit has been installed at the Olgovskoye Field facilities to address sales gas dew point issues, and is now in operation. Production rates remain limited by market conditions, but as and when demand recovers, management estimates that the compressor will add approximately 2 MMcf/d (gross) of capacity.

Tunisia

All wells in Sabria have been returned to production after the shut-in.

Romania

The Company is currently refining the development drilling program and has commenced preliminary design of the required surface facilities for the Moftinu-1001 gas discovery. Pending the various permits and approvals required and obtaining financing for the project, drilling and construction could commence in mid-2016, with commercial production in early 2017. Development of this discovery will include up to three additional wells plus surface facilities, costing approximately $16 million.

Given the success in Moftinu, the Company is also proceeding to refine and expand the exploration inventory within the concession. Based on older vintage 2D seismic data and existing wells, management has identified over 25 leads and prospects with risked, Pmean prospective resources of 59.7 MMboe (Company estimate). These prospective resources are in addition to the above mentioned discoveries at Moftinu. The exploration program will include shooting 3D seismic over the Berveni and Madaras areas, both of which are identified in Serinus' latest corporate presentation, available at www.serinusenergy.com. Pending those seismic results, further technical analysis and availability of financing, Serinus anticipates testing these prospects over the next several years.

Supporting Documents

The full Management Discussion and Analysis ("MD&A") and Financial Statements have been filed in English on www.sedar.com and in Polish and English via the ESPI system, and will also be available on www.serinusenergy.com.

Notes

Serinus prepares its financial results on a consolidated basis, which includes 100% of its indirectly 70% owned subsidiary, KUB-Gas LLC ("KUB-Gas"). Unless otherwise noted by the phrases "allocable to Serinus", "net to Serinus", "attributable to SEN shareholders" or "net to SEN WI", all values and volumes refer to the consolidated figures. Serinus reports in US dollars; all dollar values referred to herein, whether in dollars or per share values are in US dollars unless otherwise noted.

Cautionary Statement

BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Test results are not necessarily indicative of long-term performance or of ultimate recovery. Test data contained herein is considered preliminary until full pressure transient analysis is complete.

This text contains selected excerpts from the original news release in English, which has been filed by Company in Canada (country of its registered office) by way of the SEDAR system and is available at the website www.sedar.com by entering the Company name at http://www.sedar.com/search/search_form_pc_en.htm.

The Polish translation of the entire text of the news release is available at the website: www.serinusenergy.com

SERINUS ENERGY

Schedule to the current report no. 27/2015 of August 14, 2015
Issuer's trading name: **SERINUS ENERGY INC.**

Summary Financial Results *(US$ 000's unless otherwise noted)*

	Three Months Ending June 30		
	2015	**2014**	**Change**
Oil and Gas Revenue	22,343	41,635	(46%)
Net Income (as reported)	549	8,733	(94%)
per share, basic and diluted	$0.01	$0.11	
Net Income (allocable to SEN)	49	5,344	(99%)
per share, basic and diluted	$0.00	$0.07	
Comprehensive Net Income	3,483	6,737	(48%)
per share, basic and diluted	$0.04	$0.09	
Funds from Operations (as reported)	5,168	20,840	(75%)
per share, basic and diluted	$0.07	$0.27	
Funds from Operations (allocable to SEN)	$4,489	$15,778	(72%)
per share, basic and diluted	0.06	$0.20	
Capital Expenditures	3,686	16,059	(77%)
Average Production (net to Serinus)			
Oil *(Bbl/d)*	951	982	(3%)
Gas *(Mcf/d)*	17,870	23,293	(23%)
Liquids *(Bbl/d)*	64	101	(37%)
BOE *(boe/d)*	3,993	4,965	(20%)
Average Sales Price			
Oil *($/Bbl)*	63.48	$108.13	
Gas *($Mcf)*	$7.34	$10.56	
Liquids *($Bbl)*	43.59	$77.79	
BOE *($/boe)*	$48.67	$76.72	
	June 30		
	2015	**2014**	
Cash & Equivalents	12,484	15,719	
Working Capital	(7,865)	(11,727)	
Long Term Debt	44,947	15,413	
Shares			
Outstanding, period end	78,629,941	78,629,941	
Average for period (basic)	78,629,941	78,629,941	
Average for period (FD)	78,629,941	78,629,941	

* Funds from Operations is not a recognized measure under IFRS. See Management's Discussion and Analysis for further information on non-IFRS measures.

Second quarter production and prices are broken down as follows:

		Q2 2015 Production[1]				Q2 2015 Commodity Prices		
		Ukraine[2]	Tunisia	Total		Ukraine	Tunisia	Total
Oil	*(bbl/d)*	-	951	951	*($/bbl)*	-	$63.48	$63.48
Gas	*(Mcf/d)*	16,339	1,531	17,870	*($/Mcf)*	$7.14	$9.50	$7.34
Liquids	*(bbl/d)*	64	-	64	*($/bbl)*	$43.59	-	$43.77
Boe	*(boe/d)*	2,787	1,206	3,993	*($/boe)*	$42.86	$62.12	$48.67

1. Numbers may not add due to rounding
2. Ukraine volumes are Serinus 70% interest

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