



THIS REPORT WAS FILED IN ENGLISH WITH SECURITIES REGULATORS IN POLAND ON DECEMBER 23, 2015.

Current Report No. 32/2015

Date: 2015-12-23

Issuer's trading name: SERINUS ENERGY INC.

Title: Disposal of interests in KUB-GAS Holdings Limited

Legal basis: Art. 56(1)(2) of the Act on Public Offering – current and periodic information

Content:

The Management of SERINUS ENERGY INC. ("**Serinus**", "**SEN**" or the "**Company**") informs that on December 23, 2015 the Company has entered into an agreement with a private company for the sale of all shares of KUB-Gas Holdings Limited ("**KHL**") currently owned by Serinus, which constitute 70% of KHL's share capital and entitle to 70,000 of votes at the general shareholders meeting of the KHL, with total par value of EUR 70,000. KHL in turn, owns 100% of the shares of KUB-Gas LLC ("**KUB-Gas**"). KUB-Gas (directly and indirectly through its subsidiary, KUB-Gas Borova LLC) owns 100% of and operates the six licences/permits in Ukraine which contain the Olgovskoye, Makeevskoye, Vergunskoye and Krutogorovskoye gas fields. KUB-Gas was assigned gross 2P reserves of 64.5 Bcf and 459 Mbbbl of NGL's (45.1 Bcf and 321 Mbbbl SEN WI) at December 31, 2014 (as per independent 3rd party reserve evaluator as at December 31, 2014). Gross production in Q3 2015 was 23.5 MMcfe/d (16.4 MMcfe/d SEN WI), of which 98% was natural gas.

A private company is purchasing the shares of KHL for cash consideration of \$30 million plus working capital and inter-company adjustments. The sale is anticipated to close before January 31 2016 with an effective date of December 31 2015, and is subject to the waiver or expiry of the right of first refusal by the owner of the remaining 30% of KHL. Concurrent with the closing, Serinus will repay \$11.28 million of debt plus accrued interest to the European Bank for Reconstruction and Development ("**EBRD**"), and may at the EBRD's discretion repay an additional \$7.4 million on its Tunisia Facility. The balance of the proceeds of sale will be used to further the development of the Company's Moftinu gas discovery in Romania.

Please note that as of today it is not possible to define the final impact of the sale agreement on Company's financial result as the Ukrainian reserves of the Company shall undergo yearly evaluation as of year end by an independent third party reserve evaluator and this will have a direct impact on the evaluation of the Ukrainian assets and KHL's shares as well as on its carrying value on the Company's accounting books. The Ukraine reserves as at December 31, 2015 are currently being reviewed by the evaluator, and the resultant volumes and present values will be published as part of the normal course disclosure with the year end 2015 financial results. The net book value attributable to the assets in Ukraine at September 30, 2015 was \$53.7 million (unaudited, 100% WI).

Serinus considered the KHL shares as long-term investment. There are no links between the Company and its managing or supervisory persons and the buyer. FirstEnergy Capital LLP acted as financial advisor to Serinus for this transaction. The assets which are the object of the sale agreement, are deemed by Serinus to be of material value, due to the fact their value exceeds 10 percent of SEN's equity.

Background

During the course of 2014 and 2015 the government of Ukraine introduced a series of laws and regulations that have had a material adverse effect on KUB-Gas' business. Effective August 1, 2014, the nominal royalty rates on natural gas increased to 55% from the previous level of 28%. Those nominal rates are applied to prices set periodically by regulators which are based on the cost of imported gas. Other legislation placed restrictions on the gas market, causing realized prices in the private sector to fall significantly below those regulated prices, resulting in effective royalty rates as high as 64%. While a bill to reduce the nominal royalty rate to 29% passed a first reading in the parliament in October 2015, it has yet to pass a second reading and move on to presidential assent, and it is uncertain as to when and if this legislation might be enacted.

In September 2014, Ukraine imposed foreign exchange controls which restricted remittances of currency outside the country, effectively cutting off access to approximately 70% of the Company's revenues. Finally, the global weakening of energy prices has also been felt in Ukraine. The realized gas price in Q3 2015 was \$6.58/Mcf vs. \$10.17/Mcf for the same quarter in 2014. The prices for NGL's were \$42.91/bbl and \$84.98/bbl for the same respective periods.

This combination of factors has severely reduced cash flow. Funds from Operations from Ukraine during the third quarter of 2015 were UAH 80.8 million, or the equivalent of \$3.66 million (both values SEN WI) vs. \$11.4 million in Q3 2014. While Serinus reports in US dollars, restrictions on foreign exchange transactions means that most of that cash flow remains in UAH held in accounts in Ukraine. With lower prices and higher royalties, development economics have become marginal so production is expected to fall further as natural declines assert themselves.

Going Forward

Post the transaction, Serinus will have 11.8 MMboe of 2P reserves (as per independent 3rd party reserve evaluator as at December 31, 2014) in its properties in Tunisia which are currently producing 1,415 boe/d (average production for November 2015) of which approximately 75% is oil. Netbacks during Q3 2015 were \$22.19 per boe. Serinus also has an effective 100% interest in the Satu Mare Concession in northwest Romania, which contains the Moftinu gas discovery made in early 2015. The Moftinu-1001 well tested at a maximum rate of 7.4 MMcf/d and 19 bbl/d of liquids. The Company estimates a P50 recoverable volume of 18 Bcf. Pending regulatory approvals and financing, first production could be in early 2017. The cost of full development of the Moftinu discovery is estimated at \$16 million, although management is examining options for achieving limited early production at a lower cost. Satu Mare also has a multi-year exploration inventory of over 25 leads and prospects with risked prospective P_{mean} resources of 59 MMboe.

Serinus purchased its interest in Ukraine in mid-2010 for \$45 million. Since that time, the Company has successfully introduced new technology and management practices, and gross production

increased from 5 MMcfe/d at the time of purchase to 38 MMcfe/d in Q3 2014. Since 2010, KUB-Gas has paid dividends to its shareholders of \$66.1 million (\$40.6 million SEN WI).

The Company also informs that the information regarding negotiations concerning the sale of KHL's shares was delayed under art. 57 (1) of the Act of 29 July 2005 on Public Offerings [...] (the "Act") on December 17, 2015. The reason for delay was the fact that a public disclosure of the information regarding ongoing negotiations could have a negative impact on the course or result of negotiations and thus breach the Company's legitimate interest.

Cautionary Statement:

BOE's or Mcfe's 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.