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Current Report No. 34/2014
Date: 2014-08-13
Issuer's trading name: SERINUS ENERGY INC.
Title: Serinus Q2 2014 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" 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, 2014.

Second Quarter Highlights

- Production in the second quarter was 4,965 boe/d, up 56% vs. Q2 2013, and 2% higher than the 4,849 boe/d in Q1 2014. The growth vs. Q2 2013 was assisted by the acquisition of Winstar Resources.
- Despite the uncertain political and security situations, organic growth in the Company's Ukraine properties continued, with average production (net to SEN WI) for the quarter rising 15% to 3,654 boe/d (21.9 MMcfe/d) vs. the same period in 2013, and 4% up from Q1 2014.
- Average daily production (SEN WI) for the third quarter 2014 to date is approximately 5,625 boe/d (940 bbl/d of oil, 27.6 MMcf/d of gas, 82 bbl/d of liquids). The increase is due substantially to the M-17 well in Ukraine, which was onstream only for a few days at the end of Q2, and is now contributing fully.
- Gross revenues for the quarter reached $41.6 million, up 44% over Q2 2013. The portion allocable to SEN shareholders was $32.8 million vs. $20.3 million last year. The balance is attributable to the owner of the remaining 30% of KUBGAS Holdings Limited not held by Serinus.
- Netbacks in Ukraine rebounded from $30.85/boe ($5.14/Mcfe) in Q1, to $41.76/boe ($6.96/Mcfe) in Q2 with the expiry of the discounts on imported Russian gas, and some stabilization in the exchange rate between the Ukrainian Hryvnia and the US Dollar. Tunisian netbacks continue to be robust at $54.83/boe.
- Funds from Operations in the second quarter were up 133% to $20.8 million vs. $8.9 million in Q2 2013, and up 40% compared to $14.9 million in Q1 2014. The amount allocable to SEN shareholders was $15.8 million.
- Net earnings for the quarter, before the currency charges, were $8.7 million ($5.3 million attributable to SEN shareholders), as compared to $3.2 million in Q2 2013 ($2.4 million attributable to SEN shareholders) due substantially to Winstar acquisition.
- Serinus recorded comprehensive net earnings of $6.7 million in the second quarter of 2014. Comprehensive earnings were impacted by a $2.0 million charge taken for unrealized foreign currency translation. This relates to the translation of the Ukrainian subsidiaries'

financial statements from UAH to USD, and the loss reflects the deterioration of the UAH. As the exchange rate fluctuates, the equivalent value as reported in US dollars changes, but this does not impair the ability of those assets or liabilities to perform their intended purpose(s). If the Hryvnia were to appreciate, some or all of this unrealized loss would be recouped.

- Capital expenditures for the quarter were $16.1 million vs. $9.3 million for the same period in 2013.
- During the quarter, KUB-Gas LLC paid dividends of $10.5 million ($7.35 million SEN WI)
- In Q2 2014, the Company made two early repayments totalling $7 million with respect to the convertible note held by Dutco Energy Limited. Subsequent to June 30, 2014, it made further repayments of $8 million in final settlement of the facility.

Tables: “Summary financial results” and “Second quarter production and prices” constitute attachment to this report. Note: 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.

Operational Highlights & Update

- Production for the first quarter of 4,965 boe/d increased by 2% vs. Q1 2014 (4,849 boe/d) driven substantially by higher production in Ukraine.

- The M-17 well was drilled during the first quarter. Logs indicated 9 metres of net pay in the primary target, the S6 sand, and 2.5 metres of pay in the S5 and 5.5 metres in the deeper S7. They also indicated resource potential 22 metres in the R30c. On test, the S7 achieved a rate of 900 Mcf/d, exceeding the Company’s expectations that it would require stimulation to produce at a commercial rate. A bridge plug was set above the S7, and after testing, and the S6 commenced production on June 26th at an initial rate of 6.0 MMcf/d (4.2 MMcf/d SEN WI). That rate has been increased several times, allowing the well to stabilize at each stage, and it has averaged 8.6 MMcf/d (6.0 MMcf/d SEN WI) since start-up. The S5 and R30C remain behind pipe to be tested and developed at a later date.

- The Winstar-12bis (“WIN-12bis”) well spud on July 17th. It is expected to reach its target total depth of 3,900 metres in mid-September, with evaluation and testing taking approximately four additional weeks thereafter. WIN-12bis is the first of a two well drilling program in the Sabria field in central Tunisia. Each well is anticipated to cost $14.4 million ($6.5 million SEN WI).

- A 203.5 km2 3D seismic program over the Sanrhar field commenced in early June, and is approximately 90% complete. Legacy sparse 2D data indicates a number of four-way structural closures which this program will investigate more thoroughly. Current production from Sanrhar is 50 – 60 bbl/d of oil from a single well, which has produced 421 Mbbl of oil to the end of 2013.

- In Tunisia, a coiled tubing unit was successful in restoring the CS Sil 1 well to production at a rate of approximately 400 - 500 Mcf/d and 40 - 50 bbl/d of oil, after running a velocity string during April. It also attempted unsuccessfully to recomplete CS Sil 10 from the Triassic TAGI sandstone to the Silurian Tannezuft. Both wells are being reviewed to determine additional measures to increase or restore production.

Outlook

The events in Ukraine this year have presented an unusual set of challenges for Serinus and its partners this year. These issues have resulted in the delay or deferral of a number of projects, and the Company now expects to exit 2014 at a production rate of 6,000 boe/d. Previous guidance was for growth of 30% - 35% over the 2013 exit rate of 4,986 boe/d, or approximately 6,500 – 6,750 boe/d.

The first major issue that affected operations was the reduction in realized gas prices during Q1 due to the discount on imported Russian gas, and the deterioration of the UAH/USD exchange rate, reducing cash flow from operations for the quarter. The Company adjusted by delaying certain operations that would not have contributed to 2014 production, such as seismic acquisition and the Romanian drilling program to later in the year. It was believed at the time that the 6,500 boe/d exit rate was still attainable.

Two additional developments have since occurred which now make it unlikely that the originally planned 2014 work program can be completed by year end. First was the decision to suspend drilling and development operations in Ukraine due to security concerns, and the second was the imposition of a new royalty regime in Ukraine which will significantly affect the amount of cash flow available for this year's development program.

With the deterioration of the security situation in eastern Ukraine, the decision was made in late June to suspend drilling, workover and construction operations until such time as safer conditions prevail. This delay has now lasted long enough that even if re-mobilization were to begin today, the total 2014 drilling program will be one well short of its original goal. There has been some improvement in the security situation in the vicinity of the Company's main producing fields, and KUB-Gas is in discussions with service providers regarding the potential resumption of drilling and completion operations, but it is not yet possible to predict when and if that may occur.

On August 1, 2014, President Petro Poroshenko signed into law a bill increasing royalties for a period of five months, commencing August 1, 2014. The major features of the new law include:

- Royalty rates on natural gas and condensate production increased to 55% and 45% respectively, from 28% and 42%. Unless subsequently renewed or extended, these rates will revert to their current levels (i.e. 28% and 42%) on January 2, 2015.
- There is a "lowering coefficient" on new wells drilled after August 1, 2014. This reduces the royalties paid on production from new gas wells to 55% of the nominal rates (i.e., the effective rate for new wells would be 30.25% for gas) for a period of two years.

Management estimates that this new royalty regime will result in an approximate 45% decline in its Ukraine after-tax cash flow over the five month effective period, corresponding to a reduction in the netback from $5.78/Mcf to approximately $3.15/Mcf, assuming $10.00/Mcf gas prices. This in turn, reduces KUB-Gas' and Serinus' cash flow which would otherwise have been available to re-deploy into the drilling and development program. The Company is re-evaluating its planned capital program in light of these potential capital constraints.

Notwithstanding the curtailment of active operations, KUB-Gas continues to produce gas and condensate as noted previously, and to be paid regularly for that production. The official price for August at which gas can be sold to industrial customers in Ukraine is 4,724 UAH per Mcm. At the current exchange rate of 12.6 UAH/USD, that is equivalent to $10.62/Mcf. The price that KUB Gas receives is approximately 4% lower, reflecting the margins of the traders through whom the gas is sold. The Company's realized gas price in Ukraine during the second quarter was $10.23/Mcf.

In the longer term, Serinus is still optimistic about its remaining opportunities within the Ukrainian licences. While the timing of getting to them is uncertain, the inventory of opportunities includes:

- Four definite drilling locations, including two exploration wells (NM-4 and M 22), and two development wells (M-15 and M-18). Success on any of these will open up additional development and exploration locations. Note: NM-4 was spud in mid June, drilled to a depth of 102 metres, and surface casing was cemented in place prior to the cessation of drilling operations.

- Fracture stimulations planned for four wells in Ukraine, including NM-3, O-11, O-15 and possibly the S7 zone in M-17. The NM-3 well is a potential oil discovery made in July 2013. The Visean formation is tight and unable to flow unstimulated. If the frac' is successful, it will be the first commercial oil well on Company licences, and will set up several additional development locations.

Other Operations

- A workover rig has moved to Ech Chouech, and operations commenced at the end of May. The EC 4 well has had debris left by previous operators cleaned out, and was perforated in the Devonian Ouan Kasa zone. After perforating, oil was recovered during swabbing operations. The well has been suspended, pending stimulation. The Ouan Kasa has 20 metres of net pay with average porosity of 12%. The rig is now moving to ECS-1 to perform similar operations. Pending regulatory approval, both wells will be stimulated later this summer, currently targeted for September. The CS-11 and CS 8bis wells are to have various work performed intended to increase or restore production, and to improve overall uptime rates.

- In Romania, Serinus will drill two exploration wells and shoot 180 km2 of new 3D seismic. Each well is expected to cost $3 million (SEN WI). Spud date for the first well is anticipated to be in November. The seismic acquisition is slated to commence in September.

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.

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

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Schedule to the current report no. 34/2014 of August 13, 2014
Issuer's trading name: **SERINUS ENERGY INC.**

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

		Three Months Ending June 30		
		2014	**2013**	**Change**
Oil and Gas Revenue		41,635	28,929	44%
Net Income (as reported)		8,733	3,181	175%
per share, basic and diluted		$0.11	$0.06	
Net Income (allocable to SEN)		5,344	829	545%
per share, basic and diluted		$0.07	$0.02	
Comprehensive Net Income		6,737	3,181	112%
per share, basic and diluted		$0.09	$0.06	
Cash Flow from Operations (as reported)		20,840	8,928	133%
per share, basic and diluted		$0.27	$0.18	
Cash Flow from Operations (allocable to SEN)		$15,778	($4,078)	(487%)
per share, basic and diluted		0.20	($0.08)	
Capital Expenditures		16,059	9,258	73%
Average Production (net to Serinus)				
Oil	*(Bbl/d)*	982	-	
Gas	*(Mcf/d)*	23,293	18,331	27%
Liquids	*(Bbl/d)*	101	124	(19%)
BOE	*(boe/d)*	4,965	3,179	56%
Average Sales Price				
Oil	*($/Bbl)*	$108.13	na	
Gas	*($Mcf)*	$10.56	$11.55	
Liquids	*($Bbl)*	$77.79	$88.76	
BOE	*($/boe)*	$76.72	$70.02	
		June 30		
		2014	**2013**	
Cash & Equivalents		15,719	19,253	
Working Capital		(11,727)	9,524	
Long Term Debt		15,413	5,352	
Shares				
Outstanding, period end		78,629,941	78,611,441	
Average for period (basic)		78,629,941	50,182,427	
Average for period (FD)		78,629,941	50,182,427	

Operational Highlights & Update

- Second quarter production and prices are broken down as follows:

		Q2 2014 Production				Q2 2014 Commodity Prices		
		Ukraine[1]	**Tunisia**	**Total**		**Ukraine**	**Tunisia**	**Total**
Oil	*(bbl/d)*	-	982	982	*($/bbl)*	-	$108.13	$108.13
Gas	*(Mcf/d)*	21,318	1,975	23,293	*($/Mcf)*	$10.23	$14.47	$10.56
Liquids	*(bbl/d)*	101	-	101	*($/bbl)*	$77.79	-	$77.79
Boe	*(boe/d)*	3,654	1,311	4,965	*($/boe)*	$61.83	$102.79	$76.72

1. Ukraine volumes are Serinus 70% interest