SERINUS ENERGY INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
US dollars in '000's

Management's Responsibility Statement

The consolidated financial statements of Serinus Energy Inc. and all information in this report were prepared by, and are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto in accordance with International Financial Reporting Standards. . The consolidated financial statements and related financial information reflect amounts which must of necessity be based upon informed estimates and judgments of management with appropriate consideration to materiality.

Serinus Energy Inc. has developed and maintains systems of controls, policies and procedures in order to provide reasonable assurance that assets are properly safeguarded, and that the financial records and systems are appropriately designed and maintained, and provide relevant, timely and reliable financial information to management. Serinus Energy Inc. has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company which complies with the current requirements of Canadian securities legislation.

KPMG LLP are the external auditors appointed by the shareholders, and they have conducted an independent examination of the corporate and accounting records in order to express an Auditors' Opinion on these consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors carries out its responsibility principally through its Audit Committee. The Audit Committee is comprised of independent directors who are all financially literate. The Audit Committee reviews with management and the external auditors any significant financial reporting issues, the consolidated financial statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim financial statements prior to their release, as well as annually to review the Company's annual consolidated financial statements and Management's Discussion and Analysis and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

"Signed" Timothy M. Elliott

Timothy M. Elliott
Chief Executive Officer

"Signed" Tracy H.Heck

Tracy H. Heck, CA
Chief Financial Officer

March 20, 2014

KPMG LLP
205 - 5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Serinus Energy Inc.

We have audited the accompanying consolidated financial statements of Serinus Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Serinus Energy Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 1 to the consolidated financial statements, which describes the political and social unrest and regional tensions that started in November 2013 and escalated in 2014 in Ukraine. The events referred to in Note 1 could adversely affect Serinus Energy Inc.'s results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

KPMG LLP

Chartered Accountants

March 19, 2014
Calgary, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

KPMG Confidential

SERINUS ENERGY INC.

Consolidated Statement of Financial Position

US dollars in '000's

		December 31, 2013	December 31, 2012
Assets			
Current			
Cash and cash equivalents		$ 19,916	$ 35,553
Accounts receivable		6,806	2,226
Prepaids and other		7,605	2,526
Crude oil inventory		1,296	-
Restricted cash	(Note 5)	1,416	-
Total current assets		37,039	40,305
Restricted cash and investments	(Note 5)	155	469
Property, plant and equipment	(Note 6)	263,445	99,577
Exploration and evaluation	(Note 7)	11,834	47,358
Total Assets		$ 312,473	$ 187,709
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 33,111	$ 22,822
Income taxes payable		4,825	938
Convertible note payable	(Note 10)	15,000	10,586
Current portion of long-term debt	(Note 11)	4,026	4,333
Asset retirement obligation	(Note 12)	3,209	409
Total current liabilities		60,171	39,088
Asset retirement obligation	(Note 12)	25,780	822
Other provisions	(Note 13)	1,148	-
Deferred tax liability	(Note 15)	46,800	7,237
Long-term debt	(Note 11)	8,030	17,112
Total liabilities		141,929	64,259
Shareholders' Equity			
Share capital	(Note 16)	$ 344,403	$ 231,516
Contributed surplus		18,062	15,135
Accumulated other comprehensive (loss) income		(269)	742
Non-controlling interest	(Note 17)	32,369	31,396
Deficit		(224,021)	(155,339)
Total shareholders' equity		170,544	123,450
Total liabilities and shareholders' equity		$ 312,473	$ 187,709

Subsequent events (Notes 1 and 11)

Commitments (Note 18)

"Signed"

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

"Signed"

TIMOTHY M. ELLIOTT, DIRECTOR, PRESIDENT AND CEO

SERINUS ENERGY INC.
Consolidated Statement of Operations and Comprehensive Loss
US dollars in '000's

		Year ended December 31, 2013	2012
Oil and gas revenue		$ 146,732	$ 99,588
Royalty expense		(34,496)	(19,468)
Oil and gas revenue, net of royalties		112,236	80,120
Operating expenses			
Production expenses		(20,926)	(12,223)
General and administrative		(12,067)	(9,498)
Transaction costs	(Note 9)	(4,487)	(4,193)
Stock based compensation	(Note 16(d))	(2,927)	(1,968)
Gain (loss) on disposition of assets		-	(205)
Depletion and depreciation		(27,782)	(25,830)
Impairment of exploration and evaluation assets	(Note 8)	(83,053)	(87,739)
Total operating expenses		(151,242)	(141,656)
Finance income/(costs)			
Interest and other income		590	2,559
Unrealized loss on investments		(145)	(82)
Interest expense and accretion		(4,409)	(8,087)
Foreign exchange loss		(1,174)	(181)
Total finance income/(costs)		(5,138)	(5,791)
Loss before tax		(44,144)	(67,327)
Current tax expense	(Note 15)	(16,025)	(9,681)
Deferred tax recovery/(expense)	(Note 15)	2,643	(1,974)
Net loss		(57,526)	(78,982)
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Foreign currency translation loss of foreign operations		(1,445)	(37)
Total comprehensive loss		$ (58,971)	$ (79,019)
Earnings (loss) attributable to:			
Common shareholders		(68,682)	(86,769)
Non-controlling interest	(Note 17)	11,156	7,787
Earnings (loss) for the year		$ (57,526)	$ (78,982)
Loss per share attributable to common shareholders - basic and diluted	(Note 16(c))	(1.07)	(1.95)
Total comprehensive earnings (loss) attributed to:			
Common shareholders		(69,694)	(86,762)
Non-controlling interest	(Note 17)	10,723	7,743
Total comprehensive loss for the year		$ (58,971)	$ (79,019)

SERINUS ENERGY INC.

Consolidated Statement of Cash Flows

US dollars in '000's

		Year ended December 31, 2013	2012
Net Loss		$ (57,526)	(78,982)
Items not involving cash:			
Depletion and depreciation		27,782	25,830
Impairment	(Note 8)	83,053	81,739
Interest on debt settled in shares		783	-
Accretion on asset retirement obligation		462	153
Stock based compensation	(Note 16 (d))	2,927	1,968
Unrealized loss on investments		145	82
Unrealized foreign exchange loss		387	495
Deferred income tax expense		(2,643)	1,974
Expenditures on decomissioning liabilities		(296)	-
Funds from operations		55,074	33,259
Changes in non-cash working capital		(1,163)	5,488
Total operating cash generated		53,911	38,747
Financing			
Proceeds from exercise of share purchase options		-	180
Issuance of long-term debt, net of issuance costs		4,390	-
Repayment of long-term debt		(13,580)	(1,770)
Dividends paid to non-controlling interest		(9,750)	-
Issuance of convertible notes payable		17,000	10,000
Issuance of convertible debentures		-	13,000
Total financing cash (used) generated		(1,940)	21,410
Investing			
Property and equipment expenditures		(29,505)	(27,351)
Business acqusition cash acquired		2,330	-
Restricted cash recovered		163	3,506
Exploration and evaluation expenditures		(46,055)	(29,581)
Changes in non-cash working capital related to investing		5,658	16,272
Total investing cash used		(67,409)	(37,154)
Effect of exchange rate changes		(199)	(412)
Change in cash		(15,637)	22,591
Cash and cash equivalents, beginning of year		35,553	12,962
Cash and cash equivalents, end of year		$ 19,916	35,553
Supplemental cash flow information			
Interest paid		$ (5,215)	$ (2,520)
Interest received		$ 578	$ 1,513
Cash taxes paid		$ (15,469)	$ (10,132)

SERINUS ENERGY INC.

Consolidated Statement of Changes in Equity

US dollars in '000's (except Number of shares)

	Common Shares						
	Number of shares [1]	Amount	Contributed surplus	Cumulative translation adjustment	Non-controlling interest	Deficit	Total
Balance, December 31, 2011	42,080,437	205,445	13,264	735	23,653	(68,570)	174,527
Shares issued pursuant to option exercises	45,333	277	(97)	-	-	-	180
Convertible debentures converted	6,049,903	25,794	-	-	-	-	25,794
Stock-based compensation	-	-	1,968	-	-	-	1,968
Foreign currency translation adjustment on foreign operations	-	-	-	7	(44)	-	(37)
Net earnings (loss)	-	-	-	-	7,787	(86,769)	(78,982)
Balances, December 31, 2012	48,175,673	$ 231,516	$ 15,135	$ 742	$ 31,396	$ (155,339)	$ 123,450
Issued on conversion of convertible debt (note 10)	3,183,268	13,369	-	-	-	-	13,369
Issued on acquisition of Winstar (Note 4)	27,252,500	99,518	-	-	-	-	99,518
Stock-based compensation	-	-	2,927	-	-	-	2,927
Foreign currency translation adjustment on foreign operations	-	-		(1,011)	(433)	-	(1,444)
Dividends declared to non-controlling interest	-	-	-	-	(9,750)	-	(9,750)
Net earnings(loss)	-	-	-	-	11,156	(68,682)	(57,526)
Balances, December 31, 2013	78,611,441	$ 344,403	$ 18,062	$ (269)	$ 32,369	$ (224,021)	$ 170,544

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

1. Reporting Entity

Serinus Energy Inc. (formerly Kulczyk Oil Ventures Inc.) ("**Serinus**" or "the **Company**") is a publicly listed company whose common shares are traded on the Toronto Stock Exchange ("**TSX**") under the symbol "SEN" and the Warsaw Stock Exchange ("**WSE**"). The Company was incorporated under the Business Corporations Act (Alberta) and is headquartered at 1170, 700- 4th Avenue SW Calgary, Alberta, T2P3J4 Canada.

On June 24, 2013 Serinus closed a plan of arrangement ("**Arrangement**") with Winstar Resources Ltd. ("**Winstar**") pursuant to which Serinus acquired all of the issued and outstanding common shares of Winstar.

In connection with the closing of the Arrangement, the Company changed its name from "Kulczyk Oil Ventures Inc." to "Serinus Energy Inc." and consolidated its common shares on the basis of one post-consolidation share for every ten pre-consolidation shares. On June 27, 2013, the Company's shares commenced trading on the TSX.

In 2013, Kulczyk Investments, S.A. ("KI") increased its investment in Serinus Energy Inc. to 50.8% through a number of transactions including the conversion of the KI loan, shares issued to KI as part of the acquisition of Winstar Resources Inc. and other private share acquisitions from other investors. Due to the increase in ownership, KI is the ultimate parent of Serinus Energy Inc.

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

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

Subsequent to year end, Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest, which escalated into violent conflicts in February 2014, has resulted in the Ukrainian parliament initiating the resignation of the president, change of government and heads of key governing bodies. It also lead to the deepening of the ongoing economic crisis, widening of the state budget deficit, depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the significant devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions. The new government has approached international lenders with the request to provide financing in order to stabilize macroeconomic situation. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

To date there has been limited impact on the Company's Ukrainian operations however, whilst management believes it is taking appropriate measures to support the sustainability of the KUB-Gas' business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Company's results and financial position in a manner not currently determinable.

Dividends

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

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared using International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB")**.

These consolidated financial statements were approved by the Company's Board of Directors on March 19, 2014.

(b) Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis except for certain financial instruments which are measured at fair value as explained in the significant accounting policies set out in notes 3 and 4.

(c) Functional and presentation currency

The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company and its subsidiaries with the exception of KUB-Gas which uses the Ukraine Hryvnia as its functional currency.

(d) Use of estimates and judgements

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

In the process of applying the Company's accounting policies, management has made the following judgements, estimates, and assumptions which has the most significant effect on the amounts recognised in the consolidated financial statements:

(i) Depletion, depreciation and Reserves
Depletion is based on the proved plus probable reserves as evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH"). The process of determining reserves is complex. Significant judgments are based on available geological, geophysical, engineering, and economic data. These judgments are based on estimates and assumptions that may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, prices and economic conditions. As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices and economic conditions. Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions can be either positive or negative. Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value of property, plant and equipment for impairment and business acquisitions.

(ii) Cash Generating Units("CGU") and Impairment
The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

Judgments include determining whether indicators of impairment exist, as well as the discount rate used in discounted cash flow models. Estimates and assumptions include those used in the determination of the recoverable

amounts of CGUs and individual assets which are based on the higher of their value-in-use and fair values less costs to sell. Unless indicated otherwise, the recoverable amount used in assessing impairment charges is fair value less costs to sell. For PP&E, the Company generally estimates fair value less costs to sell using a discounted cash flow model which has a significant number of assumptions including proved and probable reserves, forecasted commodity prices, future costs required to develop and produce reserves, discount rates and other relevant assumptions. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and subject to variability to changes in forecasted commodity prices. Commodity price changes impact the expected future cash flows which may require a material adjustment to the carrying value of tangible and intangible assets.

For E&E, estimates and assumptions include those used in the calculation of recoverable amounts for E&E CGUs and individual assets, which are based on the higher of value-in-use and fair value less costs to sell, and are discussed further in note 8.

(iii) Asset Retirement Obligation (note 12)
The Company recognizes liabilities for the future decommissioning and restoration of exploration and evaluation assets and property, plant and equipment. Management applies judgment in assessing the existence and extent as well as the expected method of reclamation of the Company's decommissioning and restoration obligations at the end of each reporting period. Management also uses judgment to determine whether the nature of the activities performed are related to decommissioning and restoration activities or normal operating activities. In addition, these provisions are based on estimated costs, which take into account the anticipated method and extent of restoration and the possible future use of the site. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technology, operating experience, prices and closure plans. The estimated timing of future decommissioning and restoration may change due to certain factors, including reserve life. Changes to estimates related to future expected costs, discount rates and timing could result in a significant adjustment to the provisions established which would affect future financial results.

(iv) Deferred taxes (note 15)
The Company follows the liability method for calculating deferred taxes. Judgments include assessment whether valuation allowances are required based on expectations of future cashflows from operations and the application of existing tax laws. Estimates and assumptions are used in the calculation of deferred taxes. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the balance sheet date could be impacted. Additionally, changes in tax laws could limit the ability of the Company to obtain tax deductions in the future.

(v) Measurement of stock based compensation expense (note 16)
Stock options issued by the Company are recorded at fair value using the Black-Scholes option pricing model. The calculation of share-based payment expense requires estimates which involve assumptions about the share price volatility, forfeiture rates, option life, dividend yield and risk-free rate at the initial grant date. These estimates impact the stock based compensation expense and contributed surplus and are subject to measurement uncertainty.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently within the Company and all its subsidiaries.

(a) Basis of consolidation

(i) Subsidiaries
The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Serinus has two direct wholly-owned subsidiaries, Kulczyk Oil Ventures Limited ("**KOV Cyprus**") and Winstar. Through KOV Cyprus, Serinus has the following indirect wholly-owned subsidiaries, Kulczyk Oil Brunei Limited and AED South East Asia Ltd. which hold the Company's interests in Brunei Block L, Loon Latakia Limited which

holds the Company's interest in Syria Block 9 and KOV Borneo Limited which holds the Company's interest in Brunei Block M. KOV Cyprus also owns 70% of KUBGAS Holdings Limited ("**KUB Holdings**"), formerly Loon Ukraine Holding Ltd., which holds a 100% interest in KUB-Gas.

Through Winstar, Serinus has the following indirect wholly-owned subsidiaries, Winstar B.V., Winstar Tunisia B.V. which hold the Company's interest in Tunisia, Winstar Magyarorszag kft, and Winstar Satu Mare SRL which holds the Company's interest in Romania.

(ii) Joint operations and joint ventures
The Company has applied IFRS 11 to all joint arrangements as of January 1, 2012. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. The consolidated financial statements include the Company's proportionate share of the related assets, liabilities, income and costs.

(iii) Transactions eliminated on consolidation
Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Business combination and goodwill

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the income statement. Generally, acquisitions of exploration and evaluation assets do not meet the definition of a business.

(c) Segment Information

Operating segments have been determined based on the nature of the Company's activities and the geographic locations in which the Company operates, and are consistent with the level of information regularly provided to and reviewed by the Company's chief operating decision makers.

(d) Foreign Currency

(i) Foreign currency transactions
Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period-end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

(ii) Foreign currency translation
In preparing the company's consolidated financial statements, the financial statements of each entity are translated into U.S. dollars. The assets and liabilities of the foreign operation that does not have a functional currency of U.S. dollars, 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. Foreign exchange differences are recognized in Other Comprehensive Income.

(e) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments include cash and cash equivalents, restricted cash and investments, trade and other receivables, trade and other payables, the convertible note payable and long-term debt. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs, except for financial assets at fair value through profit or loss whereby any directly attributable transaction costs are expensed as incurred. Subsequent to initial recognition, non-derivative financial instruments are designated into one of the following categories and measured as described below.

<u>Held to maturity investments</u>
Subsequent to the initial recognition, held to maturity investments are measured at amortized cost using the effective interest method, less any impairment losses. The Company has no held to maturity investments.

<u>Available-for-sale assets</u>
Subsequent to the initial recognition, available-for-sale assets are measured at fair value and changes therein, other than impairment losses, and foreign currency differences on available-for-sale monetary items are recognized directly to equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss. The Company has no available-for-sale assets.

<u>Financial assets and liabilities at fair value through profit or loss</u>
The Company's investment in Jura Energy Corporation is a financial asset recorded at fair value through profit or loss. Subsequent to the initial recognition, this financial instrument is measured at fair value, and changes therein are recognized in profit or loss.

<u>Financial liabilities at amortized cost</u>
The Company's long-term debt and convertible notes are recorded at amortized cost through profit or loss. Subsequent to the initial recognition at cost, these financial instruments are adjusted for accrued interest in profit or loss.

<u>Cash and cash equivalents</u>
Cash and cash equivalents are comprised of cash on hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted cash is comprised of cash held in trust by a financial institution for the benefit of a third party as a guarantee that certain work commitments will be met. Once the work commitments are met, the restricted cash is released from the trust and returned to cash.

(ii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(f) Property, plant and equipment and exploration and evaluation assets:

(i) Recognition and measurement:

<u>Exploration and evaluation ("**E&E**") expenditures:</u>
Pre-license costs are recognized in the statement of operations as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, are capitalized as exploration and evaluation assets. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped by concession or license area.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proved or probable reserves. A review of each exploration license or field is carried out, at least annually, to ascertain whether the project is technically feasible and commercially viable.

Upon determination of technical feasibility and commercial viability, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property, plant and equipment referred to as oil and natural gas interests.

Development and production costs:
Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("**CGU**") for impairment testing and categorized within property and equipment as oil and natural gas interests. Property, plant and equipment is comprised of drilling and well servicing assets, office equipment and other corporate assets. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within profit or loss.

(ii) Subsequent costs:
Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized costs generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:
The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proved and probable if the ability to produce is supported by either actual production or conclusive formation test. The area of reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proved and probable classification when successfully tested by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

Plant and equipment are recorded at cost and are depreciated over the estimated useful lives of the asset using the declining balance basis at rates ranging from 10% to 30%. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(g) Impairment

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. The Company's CGU's generally align with each concession or production sharing contract.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU or CGU's that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(h) Cash and Cash equivalents

Cash and cash equivalents include short-term investments, such as money market deposits or similar type instruments, with a maturity of three months or less.

(i) Inventory

Inventory is primarily comprised of oil produced but not transported to market at the end of the period. Inventory includes crude oil held for sale and crude oil stored at port locations waiting to be loaded onto vessels. Inventory is recorded at net realisable value, with the change in net realisable value being recorded in Oil and Gas Revenue.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) Asset Retirement Obligation:
The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Asset Retirement obligations ("ARO") are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date using a risk free interest rate associated with the type of expenditure and jurisdiction. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the ARO are charged against the provision to the extent the provision was established.

(ii) Onerous contracts:
A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on associated assets. The Company has no onerous contracts.

(k) Revenue recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when title transfers and collection is reasonably assured. Revenue from properties in which the Company has an interest with other producers is recognized on the basis of the Company's net working interest. Crude oil and natural gas sold below or above the Company's working interest share of production results in production underlifts or overlifts. Underlifts are recorded as a receivable at market value with a corresponding increase to revenues, while overlifts are recorded as a payable at market value with a corresponding decrease to revenues.

The selling price of gas in Ukraine is determined based on the application of prices for gas sales as approved by the Ukrainian National Commission on Energy Regulation. Prices for crude oil in Tunisia are established at the market based on actual correspondence of supply and demand at a particular period of time.

(l) Finance income and expenses

Finance expense comprises interest expense on borrowings and accretion of the discount on provisions recognized on financial assets.

Borrowing costs incurred on exploration and evaluation assets are expensed as incurred. Borrowing costs derived on debt specifically related to the construction of qualifying assets, if any, in the development stage will be capitalized

during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate that will be used to determine the amount of borrowing costs to be capitalized will be the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

(m) Stock based compensation

The Company has issued options to directors, officers and employees to purchase common shares. The fair value of options on the date they are granted to employees is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(n) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(o) Loss per share

Basic loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

(p) Recent accounting pronouncements

(i) New and Amended Standards Adopted
As disclosed in the December 31, 2012 annual Consolidated Financial Statements, effective January 1, 2013, the Company adopted, as required, IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), IFRS 11, "Joint Arrangements" ("IFRS 11"), IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12") as well as the amendments to IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28").

Serinus reviewed its consolidation methodology and determined that the adoption of these standards did not result in a change in the consolidation status of its subsidiaries and investees.

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement" ("IFRS 13") which establishes a single source of guidance for most fair value measurements, clarifies the definition of fair value, and enhances the disclosures on fair value measurement. IFRS 13 is effective for fiscal years beginning on or after January 1, 2013. The Company

reviewed its fair value measurements and determined that the adoption of this standard did not result in any change except for the expanded disclosure on fair value measurement required.

Effective January 1, 2013, the Company complied with the amended disclosure requirements, regarding offsetting financial assets and financial liabilities, found in IFRS 7, "Financial Instruments: Disclosures" issued in December 2011. The application of the amendment had no impact on the consolidated statement of operation and comprehensive (loss) or the consolidated statement of financial position.

(ii) New Standards and Interpretations not Yet Adopted
Certain new accounting standards and interpretations have been published that are not mandatory for the 2013 reporting period.

IFRS 9 Financial Instruments
This standard sets out the recognition and measurement requirements for financial instruments and contracts to buy or sell non-financial items. The IASB is finalizing this standard as it completes the various phases of its comprehensive project on financial instruments. The Company will continue to monitor the changes to this standard as they arise and will determine the impact closer to the effective date which has been tentatively set by the IASB for accounting periods commencing on or after January 1, 2018.

Amendment to IAS 36
This amendment requires entities to disclose the recoverable amount of an impaired Cash Generating Unit ("CGU") if the amount is based on fair value less costs of disposal. The amendment is effective January 1, 2014 with earlier adoption permitted. Adoption of the amendment will not result in a significant accounting change to the Company's consolidated financial statements, but may impact the related disclosures.

4. Acquisition of Winstar Resources Ltd.

On June 24, 2013 Serinus closed an Arrangement pursuant to which the Company acquired all of the issued and outstanding shares of Winstar. Winstar was a publicly traded international oil and gas exploration and development company whose activities consisted of exploration, development and production of crude oil and natural gas fields in Tunisia as well as exploration activities in Romania.

Under the terms of the Arrangement, Winstar shareholders, for each share held, received 7.555 pre-acquisition shares of the Company or CAD$2.50 in cash, subject to a maximum of CAD$35 million in cash, with such cash provided by Kulczyk Investments S.A. ("KI"), the major shareholder of the Company. The maximum cash consideration was elected, resulting in KI acquiring 14,000,000 Winstar shares at closing. The Winstar shares held by KI were then exchanged for 10,577,000 post-consolidation common shares of the Company in accordance with the terms of the Arrangement. A total of 16,675,500 post-consolidation common shares of the Company were issued to Winstar shareholders other than KI, who elected to receive common shares, for a total of 27,252,500 post-consolidation common shares issued as consideration for the acquisition of Winstar. The closing price of the common shares on the Warsaw Stock Exchange at time of closing was equivalent to $3.65 U.S.dollar per share based on closing exchange rates on that date.

The Acquisition was accounted for by the acquisition method based on fair values as follows:
(Thousands of US dollars)

Share consideration	$	99,518
Fair value of net assets acquired		
Cash	$	2,330
Restricted cash		1,410
Working capital (excluding cash)		600
Property, plant and equipment		164,711
Exploration and evaluation asset		100
Other provision		(1,325)
Asset retirement obligation		(24,693)
Current portion of asset retirment obligation		(1,410)
Deferred income taxes		(42,205)
	$	99,518

The estimated fair value of property, plant and equipment was determined using both internal estimates and an independent reserve evaluation. The estimated fair value of accounts receivable acquired was $9.5 million and the Company expects to collect 100% of this amount. The deferred tax liability was determined based on applying the estimated effective tax rate for each concession to the difference between the book and tax basis of the net assets acquired. The long term asset retirement obligation was determined using the Company's estimated timing and costs to remediate and abandon wells and facilities. An inflation rate of approximatley1% and a discount rate of approximately 3% were used. Other provisions acquired include $1.3 million related to a right to audit from counterparties arising in the normal course of business for which a provision is made to reflect management's best estimate of eventual settlement.

Results of Winstar for the period June 25 to June 30, 2013 were not material and are not included in the results of the Company. Pro forma revenues and net loss for the combined entity for the period January 1, 2013 to December 31, 2013 would have been approximately $167.3 million and $57.8 million, respectively. Transaction costs of $3.2 million are expensed in the statement of operations and comprehensive earnings.

5. Restricted cash and investments

As part of the Arrangement (note 4) the Company has an irrevocable standby letter of credit issued by a Canadian chartered bank for $1.4 million as required to meet future abandonment obligations existing on certain oil and gas properties in Canada. The Company has pledged $1.4 million of short term investments as security for the Canadian letter of credit. The obligation is expected to be settled within the next twelve months and accordingly the restricted cash is shown as a current asset.

The fair value of the restricted cash approximates its carrying value.

The Company holds a 1.1% shareholding interest in Jura Energy Corporation, a public company traded on the TSX. The market value of the investment at December 31, 2013 was $155 thousand (December 31, 2012 - $225 thousand).

6. Property and equipment

Future development costs associated with the proved plus probable reserves of $104.5 million (2012- $77.4 million) were included in the depletion calculations.

(Thousands of US dollars)	Oil and natural gas interests	Plant and equipment	Other	Total
Cost or deemed cost:				
Balance at December 31, 2011	$ 88,908	$ 10,541	$ 3,775	$ 103,224
Additions	23,230	4,058	493	27,781
Reclassification from exploration and evaluation	4,978	-	-	4,978
Foreign currency translation adjustment	608	96	38	742
Balance at December 31, 2012	$ 117,724	$ 14,695	$ 4,306	$ 136,725
Additions	23,369	7,288	371	31,028
Acquisition of Winstar (note 4)	164,711	-	-	164,711
Foreign currency translation adjustment	(2,303)	(901)	(13)	(3,217)
Balance at December 31, 2013	$ 303,501	$ 21,082	$ 4,664	$ 329,247
Depletion and depreciation:				
Balance at December 31, 2011	$ (9,162)	$ (1,046)	$ (752)	$ (10,960)
Depletion and depreciation	(24,209)	(1,488)	(409)	(26,106)
Foreign currency translation adjustment	(55)	(15)	(12)	(82)
Balance at December 31, 2012	$ (33,426)	$ (2,549)	$ (1,173)	$ (37,148)
Depletion and depreciation	(26,938)	(147)	(697)	(27,782)
Depreciation capitalized in E&E	-	(1,584)	-	(1,584)
Foreign currency translation adjustment	610	94	8	712
Balance at December 31, 2013	$ (59,754)	$ (4,186)	$ (1,862)	$ (65,802)
Net book value:				
Balance at December 31, 2012	$ 84,298	$ 12,146	$ 3,133	$ 99,577
Balance at December 31, 2013	$ 243,747	$ 16,896	$ 2,802	$ 263,445

7. Exploration and evaluation assets

(Thousands of US dollars)	As at December 31, 2013	As at December 31, 2012
Carrying amount, beginning of the year	$ 47,358	$ 104,568
Additions	47,547	29,581
Reclassification to property and equipment	-	(4,978)
Acquisition of Winstar (note 4)	100	-
Impairment on Block L, Brunei (note 8)	(83,053)	-
Impairment on Block M, Brunei (note 8)	-	(79,491)
Impairment on Block 9, Syria (note 8)	-	(2,248)
Cumulative translation adjustment	(118)	(74)
Carrying amount, end of the year	$ 11,834	$ 47,358

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

(Thousands of US dollars)	As at December 31, 2013	As at December 31, 2012
Brunei Block L	$ -	$ 40,820
Ukraine	10,947	6,538
Romania	887	-
	$ 11,834	$ 47,358

8. Impairment

Brunei – Block L

The production sharing agreement ("PSA") with Brunei National Petroleum Company Sendirian Berhand was set to expire on August 27, 2013. Serinus received confirmation that its request to extend the PSA for three months had been granted and the new date for completion of the minimum work obligations for phase 2 of the exploration period was November 27, 2013. Phase 2 of the exploration automatically extended to allow the completion of the drilling of the well and in the event the Company decides to appraise a discovery the term of the exploration period is further extended to allow for the implementation of the appraisal program. After encountering operational difficulties during the phase 2 work commitments, the Company has suspended further drilling activities and is currently evaluating its drilling campaign together with Petroleum Brunei.

The Company has spent approximately $50.5 million on drilling four wells in Block L, $25.5 million on seismic and $7.0 million on capitalized G&A and other minor capital costs. Due to the results of the wells drilled to date, the Company has determined that an indicator of impairment exists at December 31, 2013 and management performed an impairment test. The future cashflows of Block L are uncertain with no proved or probable reserves assigned; therefore the Company determined that as of December 31, 2013, the Block L CGU was impaired by the full amount spent to date and impairment of $83.0 million was recorded on the statement of operations and comprehensive loss.

Brunei – Block M

On August 27, 2012 the PSA with PetroleumBRUNEI for Block M expired after efforts by the joint venture partners to obtain an extension to the terms of the PSA were unsuccessful. Accordingly, the Company recognized an impairment of $85.5 million in 2012, including $79.5 million for the balance of costs capitalized in respect of the Block and a $6.0 million provision for the non-performance penalty under the PSA. There is no remaining asset value recorded for Block M as of December 31, 2013.

Syria – 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 the continued civil unrest which has made rendering the performance of its obligations under the Contract impossible. Management intends to resume the planned drilling program once the civil unrest has subsided and sanctions have been lifted. However, at this time, there is no definitive timeline to resume the drilling program. The Company recorded an impairment of $2.2 million in the previous year. There is no remaining asset value recorded for Syria- Block 9 at December 31, 2013.

9. Transaction costs

Transaction costs include costs associated with the Winstar Arrangement and other miscellaneous projects. For the year ended December 31, 2013, transaction costs were $4.5 million (2012 - $4.2 million).

10. Convertible note payable

(a) Dutco loan

Dutco Loan *(Thousands of US dollars)*	Face Value	Liability
Balance December 31, 2012	$ -	$ -
Issued	15,000	15,000
Interest	-	-
Balance December 31, 2013	$ 15,000	$ 15,000

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

The term of the Dutco Credit Facility is 12 months with interest calculated on outstanding amounts at a rate of 12% per annum and paid monthly. Dutco may convert up to $5.0 million, unless the loan is in default in which case up to $15 million, of the amounts outstanding under the terms and conditions of the Dutco Credit Facility into a variable number of common shares of the Company, subject to TSX approval. The loan is convertible into common shares based on the trading price at the time of the conversion of the Company on the Toronto Stock Exchange ("TSX"). The facility requires that the Company maintain a financial ratio of current assets to current liabilities of not less than 1:1 on a consolidated basis excluding certain non-operating items. At December 31, 2013, the Company was in compliance with the covenant.

The loan is secured by a pledge on the shares of Kulczyk Oil Ventures Limited, a fully owned subsidiary of Serinus that indirectly owns the assets and liabilities associated with the Brunei operations, Ukraine operations and Syrian operations.

The Company also entered into an agreement that gives Dutco the right to acquire an interest in Block L of a minimum of 5% to a maximum of 15%. For each one percent ownership interest in Block L, Dutco can convert the amount outstanding on the convertible note payable by $1.0 million. A decision to exercise the right to acquire an interest is to be made within 31 days of the test results of a discovery well being announced in Block L.

As at December 31, 2013, $15 million had been drawn on this facility.

(b) KI Loan

(Thousands of US dollars)	Face Value	Liability
Balance December 31, 2011	$ -	$ -
Issued	10,000	10,000
Interest	-	586
Balance December 31, 2012	$ 10,000	$ 10,586
Issued	2,000	2,000
Interest	-	783
Converted	(12,000)	(13,369)
Balance December 31, 2013	$ -	$ -

On June 22, 2012, the Company entered into a loan agreement with KI for a maximum of $12.0 million. The loan bore interest at 15% and was initially due to mature on December 31, 2012. In December 2012, the terms of the loan were amended. Under the amended and restated agreement, the loan's maturity date was extended to December 31, 2013. In addition, under the amended and restated agreement the debt was convertible and the lender was able to exercise its option to convert the outstanding principle and accrued interest to the extent that the lender would not own less than 33% or more than 66% of the Company's common shares after the conversion is completed. The note was convertible at the volume weighted average share price for the five preceding days to the conversion date. In addition, the note converted automatically into common shares if the Company listed on certain exchanges prior to the maturity date.

On June 24, 2013 the convertible note payable was converted into common shares pursuant to the terms of the loan agreement. The principle and accrued interest of $13.4 million was converted into 3,183,268 post-consolidation common shares.

11. Long-term Debt

(a) Ukraine Funding

(Thousands of US dollars)	December 31, 2013	December 31, 2012
Current portion of long-term debt	$ 4,026	$ 4,333
Long-term debt	3,640	17,112
Total long-term debt	$ 7,666	$ 21,445

On May 20, 2011, KUB-Gas finalized a $40.0 million loan agreement with the European Bank for Reconstruction and Development ("EBRD"). The loan is denominated in US dollars and consisted of two tranches that had to be drawn within a commitment period of two years from the date of signing the loan agreement. The loan is to be repaid in 13 equal semi-annual instalments and the first payment was made on July 15, 2012. At December 31, 2012, KUB-Gas had drawn $23.0 million in loan proceeds against the EBRD loan, incurred $1.0 million in debt issuance costs and repaid $1.8 million. Early in 2013 KUB-Gas made a prepayment of $10 million under the terms of the EBRD loan agreement in addition to the second scheduled repayment of $1.8 million. In July 2013, a third scheduled payment of $1.8 million was made and in January 2014, a fourth payment of $1.8 million was made.

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

The loan is secured by pledges on certain tangible assets in Ukraine as well as on future revenues earned in Ukraine. The debt is fully guaranteed by the Company through a parent company guarantee. At December 31, 2013, KUB-Gas was in compliance with all debt covenants. The terms and conditions of the EBRD loan agreement limit the amount that KUB-Gas may pay as dividends or as repayment of loans to the Company. Subsequent to year end, the Company received a waiver

from EBRD to remove a covenant for KUB-Gas to maintain a current ratio of 1:1 as well as provide consent for KUB-Gas to repay all or portions of the debt to its parent totaling $4.0 million at December 31, 2013.

The table in note 18 describes the remaining scheduled repayment terms for the loan. The loan is repayable in 13 equal bi-annual installments of $1.8 million, representing the drawn amount of $23 million over 13 payments. The amount due within one year includes accrued interest on the loan, in addition to the scheduled repayments of $3.6 million. The Company's prepayment of the loan early in the year does not change the installment amount due every six months.

(b) Tunisia Funding

(Thousands of US dollars)	December 31, 2013	December 31, 2012
Current portion of long-term debt	$ -	$ -
Long-term debt	4,390	-
Total long-term debt	$ 4,390	$ -

On November 20, 2013 the Company finalized two loan agreements aggregating $60 million with ERBD. 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 the sum of the London UK interbank rate for a period equivalent to the interest payment period and 6%. At the Company's option, the interest rate may be fixed at the sum of 6% and the forward rate available to EBRD on the interest rate swap market. The Senior Loan is repayable in twelve equal semi-annual installments commencing after the first year of the loan. The second tranche of the Senior Loan is available only after the Convertible Loan is fully drawn, and is also subject to certain conditions including achieving and maintaining specified production targets for a period of three continuous months, and meeting specified financial and reserve coverage ratios.

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 sum of a London interbank rate and a percentage calculated on the basis of incremental net revenues earned from the Tunisian assets, with a floor of 8% per annum and a ceiling of 17% per annum. 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.

Both loan agreements contain a number of affirmative covenants, including maintaining the specified security, environmental and social compliance, and maintenance of specified financial ratios. At December 31, 2013, the Company was in compliance with all debt covenants.

On December 30, 2013 the Company drew $5.0 million from Tranche 1 and $0.6 million of transaction costs was paid.

12. Asset Retirement Obligation

The Company's obligation arises from its ownership interests in oil and natural gas assets including well sites and gathering systems in Ukraine, Tunisia, Brunei and Canada. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years.

The Company has estimated the asset retirement obligation of Brunei's Block L,Block M and in Canada (note 4) to be $3.2 million. These obligations are expected to be settled within the next twelve months and are accordingly classified as a current liability.

The Company has estimated the future cash flows prior to discounting, of the asset retirement obligation for Ukraine to be $1.6 million as at December 31, 2013 (December 31, 2012 - $1.9 million) and $34.0 million for Tunisia. The asset retirement obligation in Ukraine was discounted using a risk free interest rate of approximately 7% (2012 – 6%). The Tunisia asset retirement obligation was discounted using a risk free discount rate of approximately 3%. Other than as noted in the table below, these obligations are not expected to be settled within a year and are therefore reported as a long-term liability.

(Thousands of US dollars)	Year ended December 31, 2013	2012
Balance, beginning of year	$ 1,231	$ 935
Obligations acquired (Note 4)	26,103	-
Provisions for new wells	1,518	280
Changes in estimates	-	(127)
Abandoned wells	(296)	-
Accretion	462	153
Translation adjustment	(29)	(10)
Balance, end of year	$ 28,989	$ 1,231
Due within on year	3,209	409
Long-term liability	25,780	822
Total decommissioning provision	$ 28,989	$ 1,231

13. Other Provisions

(Thousands of US dollars)	Year ended December 31, 2013	2012
Balance, beginning of year	$ -	$ -
Obligations acquired (Note 4)	1,325	-
Changes in estimates	(177)	-
Balance, end of year	$ 1,148	$ -

The Company is subject to audits from various counterparties arising in the normal course of business for which a provision is made to reflect management's best estimate of eventual settlement. Management expects settlement of all other provisions will occur later than 12 months from period end.

14. Capital Management

As at December 31, 2013, the Company's total capital resources amounted to $197.5 million (December 31, 2012 - $155.5 million), consisting of $170.5 million (December 31, 2012 - $123.5 million) in shareholders' equity, $12.0 million in long-term debt including the current portion (December 31, 2012 - $21.4 million) and $15.0 million (December 31, 2012 - $10.6 million) in convertible note payable. Consistent with prior years, the Company manages its capital structure to maximize financial flexibility making adjustments in light of changes in economic conditions and risk characteristics of the underlying assets. Further, each potential acquisition and investment opportunity is assessed to determine the nature and total amount of

capital required together with the relative proportions of debt and equity to be deployed. The Company does not presently utilize any quantitative measures to monitor its capital.

Dividends can be paid out of the Ukrainian subsidiary, KUB-Gas, providing that the terms and conditions of the EBRD Loan agreement are met (see also note 1). These terms do restrict the ability of KUB-Gas to pay dividends as such payments are subject to maintaining certain covenant restrictions, namely a current ratio test. During 2013, the Ukrainian subsidiary successfully declared and paid dividends to its parent Company. Subsequent to December 31, 2013, certain restrictions were waived allowing for a higher portion of the Ukraine earnings to be paid to the Company as a dividend or as a repayment of existing loans. Refer to note 11.

15. Income taxes

The differences between the income tax provisions calculated using statutory rates and the amounts reported are as follows:

(Thousands of US dollars)	Year ended December 31, 2013	Year ended December 31, 2012
Loss before income taxes	$ (44,144)	$ (67,327)
Federal and provincial statutory rate	*25.0%*	*25.0%*
Expected income tax reduction	$ (11,036)	$ (16,832)
Non-deductible expenditures	1,039	2,237
Tax rate differences and net change in	23,379	
tax attributes not recognized		26,250
Income tax expense/(recovery)	$ 13,382	$ 11,655

The general federal/provincial tax rate in Alberta, Canada has remained at 25.0% in 2013.

The current tax expense is generated from the Company's operations in Ukraine and Tunisia. The corporate income tax rate effective during 2013 in Ukraine is approximately 19.0 % with a blended rate of approximately 40.3% in Tunisia.

The tax effects of temporary differences that give rise to deferred tax assets/(liabilities) are:

(Thousands of US dollars)	Year ended December 31, 2013	Year ended December 31, 2012
Property and equipment and E&E assets	$ (57,169)	$ (7,348)
Decommissioning provision	9,089	5
Other	1,280	106
Deferred income tax liability	$ (46,800)	$ (7,237)

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

(Thousands of US dollars)	Year ended December 31, 2013	Year ended December 31, 2012
Property and equipment and E&E assets	$ 176,576	$ 90,817
Share issuance costs	3,694	2,752
Decommissioning provision	16	18
Non-capital losses carried forward and other	62,851	46,937
	$ 243,137	$ 140,524

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which they can be utilized.

The Company has Canadian non-capital losses of $44.8 million that expire between 2028 and 2033, and Cyprus tax losses of $18.0 million that have an indefinite expiry period.

The Company has temporary differences associated with its investments in its foreign subsidiaries. The Company has not recorded deferred tax liabilities in respect to these temporary differences because it is able to control the reversal, and it is not probable that the temporary difference will reverse in the foreseeable future.

The Company operates in multiple jurisdictions with complex tax laws and regulations, which are evolving over time. The Company has taken certain tax positions in its tax filings and these filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management. Management has assessed the maximum potential exposure to be $3.6 million with respect to certain tax filing positions which might be challenged by the tax authorities in the Ukraine.

16. Share capital

(a) Authorized

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

(b) Issued

In connection with closing of the Arrangement (note 4), the Company consolidated its common shares on a basis of one post consolidation share for every ten pre-consolidation share and issued 27,252,500 post-consolidation common shares as consideration for the acquisition.

Accordingly, share transactions and balances and per share disclosures have been revised to reflect the impact of the consolidation for all periods presented.

(c) Loss per share

	Year ended December 31,	
(Thousands of US dollars, except share and per share data)	2013	2012
Loss attributable to common shareholders	$ (68,682)	$ (86,769)
Weighted average number of shares outstanding-basic and diluted	64,018,949	44,452,298
Basic and diluted loss per share attributable to common shareholders	$ (1.07)	$ (1.95)

(d) Stock Options

The Company has granted common share purchase options to officers, directors, employees and certain consultants with exercise prices equal to or greater than the fair value of the common shares on the grant date. Upon exercise, the options are settled in common shares issued from treasury. Options generally vest over 2 years and have a life of 5 years.

	Number of Options	Weighted average exercise price per option (US$)
Balance, December 31, 2011	4,124,500	$5.40
Granted	519,000	$4.39
Excerised	(45,333)	$4.00
Expired	(246,000)	$6.80
Forfeited	(222,767)	$4.00
Balance, December 31, 2012	4,129,400	$5.28
Granted	3,062,000	$3.89
Expired	(47,500)	$4.00
Forfeited	(54,000)	$3.61
Balance, December 31, 2013	7,089,900	$4.69

On various dates throughout 2013, the Company granted 3,062,000 share purchase options at a weighted average price of $3.89 per share to certain directors and certain employees of Serinus. In addition 47,500 stock options expired and 54,000 stock options were forfeited.

Each tranche of the share purchase options have a five year term and vest one-third immediately with the remaining two-thirds at one-third per year each on the anniversary of the grant date.

The following table summarizes information about the options outstanding as at December 31, 2013:

	Exercise price (US$)	Options outstanding	Options exercisable	Contractual life remaining, years (weighted average)
$	4.00	7,500	7,500	0.13
$	6.86	166,000	166,000	0.37
$	6.00	1,025,000	1,025,000	0.71
$	5.60	1,419,300	1,419,300	1.40
$	4.00	4,200	4,200	1.77
$	4.70	87,000	87,000	2.21
$	4.00	15,000	15,000	2.36
$	4.00	69,800	69,800	2.59
$	4.00	759,100	759,100	2.93
$	3.80	90,000	60,000	3.04
$	4.00	25,000	16,667	3.06
$	5.10	12,000	8,000	3.20
$	4.90	50,000	33,333	3.34
$	4.90	18,000	12,000	3.35
$	4.10	90,000	30,000	3.59
$	4.30	210,000	70,000	3.62
$	4.20	6,000	2,000	3.71
$	4.00	12,000	4,000	3.86
$	2.85	190,000	63,333	4.51
$	3.14	20,000	6,667	4.70
$	3.30	152,000	50,667	4.72
$	3.35	75,000	25,000	4.81
$	4.11	2,587,000	862,333	4.88
$	4.69	7,089,900	4,796,900	3.08

(e) Stock Based Compensation expense

The weighted average fair value of the options granted and the assumptions used in the Black-Scholes option pricing are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
Weighted average fair value per option	$1.99	$2.70
Exercise price	$3.89	$4.39
Volatility	65.9%	90.5%
Interest rate	1.49%	1.23%
Expected life (years)	4	4
Forfeiture rate	3.33%	3.33%
Dividends	Nil	Nil

17. Non-Controlling interests

The Company's interest in KUB-Gas is held through its 70% shareholding in KUB Holdings and consolidates the results of KUB Holdings and KUB-Gas into its financial statements. The 30% share of the net assets of KUB Holdings and KUB-Gas attributable to the minority shareholder is then presented as "non-controlling interest" within shareholders' equity on the balance sheet. Net earnings and comprehensive earnings for the year are presented to show the allocation between the Company's 70% shareholdings and the non-controlling 30% shareholder's interest.

The following is summarised financial information for the KUB Holdings subgroup, before inter-company eliminations with other companies in the Group:

(Thousands of US dollars)	Year ended December 31, 2013	Year ended December 31, 2012
Revenue	117,749	99,588
Net earnings	37,186	25,956
Other Comprehensive loss	(1,442)	(147)
Total comprehensive earnings	35,744	25,809
Net earnings attributable to non-controlling interest	**11,156**	**7,787**
Total comprehensive earnings attributable to non-controlling interest	**10,723**	**7,744**
Current assets	11,941	34,569
Non-current assets	115,084	104,127
Current liabilities	(9,043)	(8,892)
Non current liabilities	(10,088)	(25,152)
Net assets	107,894	104,652
Net assets attributable to non-controlling interest	**32,369**	**31,396**
Cash flows from operating activities	56,965	55,176
Cash flows from financing	(23,330)	(1,770)
Cash flows from investing	(28,654)	(30,323)
Net increase in cash and cash equivalents for the year	4,981	23,083
Dividends paid to non-controlling interest during the year	**(9,750)**	**-**

18. Contractual obligations and Commitments

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

(Thousands of US dollars)	Within 1 Year	2-3 Years	3-4 Years	+5 Years	Total
Office Rental	$ 744	$ 985	$ 1,044	$ 1,092	$ 3,865
Dutco loan	15,000	-	-	-	15,000
EBRD loan-Ukraine	4,026	3,640	-	-	7,666
EBRD loan-Tunisa	-	1,566	1,566	1,258	4,390
Total contractual obligations	$ 19,770	$ 6,191	$ 2,610	$ 2,350	$ 30,921

The Company's commitments are all in the ordinary course of business and include the work commitments for Brunei Block L, Syria Block 9, Ukraine, Tunisia and Romania.

Brunei Block L

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

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

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

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

Syria

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

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

Ukraine

The Company has an obligation to incur certain capital expenditures to comply with the 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 $39.8 million during the period from 2014 to 2015 as part of the planned development program. Justified deviation from the capital expenditures committed is permitted and should be agreed with the licensor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the licence. In respect of the North Makeevskoye license, the Company expects to drill one well in 2014 with follow up wells based on test results.

Tunisia

The Tunisian state oil and gas company, Enterprise Tunisienne D'Activities Petroliers ("ETAP"), has the right to back into up to a 50% working interest in the Chouech Es Saida concession if, and when, the cumulative liquid hydrocarbon sales, net of royalties and shrinkage, from the concession exceeds 6.5 million barrels. As at December 31, 2013 cumulative liquid

hydrocarbon sales net of royalties and shrinkage was 4.7 million barrels. Management is of the opinion that there are sufficient exploration and development opportunities which, if successful, could result in this provision being exercised within the next 10 years.

Romania

With the acquisition of Winstar, the Company acquired a 60% interest in the 2,949 square kilometer onshore Satu Mare exploration concession in north western Romania. In accordance with the terms of a farm-in agreement with Rompetrol, the Company must pay 100% of the concession's phase 1 and phase 2 work commitments. The joint venture has fulfilled 100% of the first stage of the work commitments under the concession agreement and has committed to a second phase of exploration. The second stage, which expires May 2015, includes the drilling of two exploration wells and the acquisition of 180 square km of 3D seismic. These expenditures are expected to occur in 2014.

Office Space

The Company had a lease agreement for office space in Calgary, Canada which was due to expire on October 31, 2014. On December 3, 2013, the Company signed a lease extension up to November 30, 2020.

19. Personnel expenses

(a) The aggregate payroll expense of employees and executive management was:

(Thousands of US dollars)	Year ended December 31, 2013	Year ended December 31, 2012
Wages, salaries and benefits	$ 17,561	$ 9,848
Bonuses	2,911	641
Stock based compensation (i)	2,927	1,968
Total remuneration	$ 23,399	$ 12,457

Personnel expenses directly attributed to exploration activities of $0.9 million have been capitalized and included in exploration assets. Personnel expenses directly attributed to oil and gas properties of $1.4 million have been capitalized and included in property and equipment. Fees paid to the directors of the Company are included in wages, salaries and benefits.

(b) Key management personnel include the following: the Directors, the President and Chief Executive Officer, Chief Financial Officer, Vice Chairman, Executive Vice President, Vice President – Operations and Engineering, Vice President Investor Relations, Vice President Geosciences and General Counsel – Vice President Legal. Key management personnel compensation consists of the following:

(Thousands of US dollars)	Year ended December 31, 2013	Year ended December 31, 2012
Wages and salaries	$ 2,159	$ 2,825
Bonuses	1,445	300
Stock based compensation	565	1,140
Total remuneration	$ 4,169	$ 4,265

(i) Represents the amortization of stock based compensation associated with options granted as recorded in the consolidated financial statements.

(ii) The Company presents its statement of operations predominately by function with the exception that personnel costs are included in production expenses and general and administrative expenses and stock based compensation is presented separately. Total personnel costs included in the statement of operations was $21.1 million (2012 - $12.5 million) of which $8.4. million (2012 - $5.4 million) was included in production expenses, $9.7. million (2012 - $5.1

million) was included in general and administrative expenses and $2.9 million ($2012 - $2.0 million) was reported as stock based compensation.

20. Fair value and Financial risk management

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Fair value of financial instruments
The Company, as part of its operations, carries a number of financial instruments including cash and short-term deposits, restricted cash, investments, accounts receivable, accounts payable and accrued liabilities.
There are three levels of fair value by which a financial instrument can be classified:
Level 1-Quoted prices in active markets for identical assets and liabilities such as traded securities on a registered exchange where there are a sufficient frequency and volume of transactions to provide ongoing pricing information.
Level 2- Inputs other than quoted prices that are observable for the asset and liability either directly or indirectly such as quoted forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace; and
Level 3- Inputs that are not based on observable market data.

The fair values of cash and cash equivalent, accounts receivable, accounts payable and accrued liabilities and convertible note payable approximate their carrying amounts due to their short-term maturities. The Company's long-term debts bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

The Company's investment is classified as fair value through profit and loss and is an investment in a public company that is quoted on the TSX. This investment is carried at fair value as a level 1 investment.

(ii) Property, plant and equipment and intangible exploration assets:
The fair value of property and equipment recognized in a business combination or used in an impairment test is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve and resource reports.

The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

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

(iv) Fair value measurements
Investments are recorded at fair value based on the quoted market prices for the shares (level 1 fair value). The fair value of the convertible note payable is estimated based on current interest rates for similar instruments, credit spreads applicable to the Company and the term of the instrument (level 2 fair values). The fair value of the long-term debt approximates to carrying value as interest rates and credit spreads applicable to the Company have not estimated to have changed significantly since the credit facility was established (level 2 fair value).

(v) Business Combinations
Assets and liabilities acquired in a business combination are measured at their fair value at the time of acquisition. The determination of fair value requires the Company to make estimates, assumptions and judgements regarding future events. The process is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities, including the fair value of crude oil and natural gas properties. As a result, the fair value of the assets and liabilities impacts the Company's future net earnings due to the impact on future depletion, depreciation, and amortization expense and impairment tests.

The Board of Directors has overall responsibility for identifying the principal risks of the Company and ensuring the policies and procedures are in place to appropriately manage these risks. Serinus's management identifies, analyzes and monitors risks and considers the implication of the market condition in relation to the Company's activities.

The Company is exposed to the following risks related to its financial assets and liabilities:

(a) 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 rate risks on the Company's note payable are not considered material because the costs are fixed. Interest on the EBRD loans for Ukraine and Tunisia (note 11) are based on LIBOR plus a margin. The EBRD loan for Ukraine also has a portion that is variable based on incremental revenue growth, up to a stated maximum of 19% while the EBRD loan for Tunisia 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 rate would affect interest expense by $0.1 million (2012 - $0.2 million), based on the debt balance outstanding at year end. Restricted cash is in instruments that are redeemable only upon completion of certain work commitments and therefore is subject to interest rate fluctuations. However, the interest rate risk thereon is not significant.

(b) 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.

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.

In Ukraine, credit evaluations are performed on customers requiring credit over a certain amount. The Company does not require collateral in respect of financial assets. Management believes that the Company's exposure to the Ukrainian and Tunisia credit risk is not significant, as the products sold are under contract or payment is made at the beginning of each month. Oil sold in Tunisia is with reputable parties and collection is prompt based on the individual terms with the parties. At December 31, 2013, the Company had $2.1 million (2012 – $0.1 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.

Management has no formal credit policy in place for customers outside the Ukraine and Tunisia 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.

(c) Foreign currency exchange risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar, Tunisian Dinar, the Euro, Polish zloty, Ukraine hryvnia, Romanian Leu and the United States dollar. At December 31, 2013 the Company's primary currency exposure related to Canadian dollar ("**CAD**"), Ukraine hryvnia ("**UAH**"), Tunisia Dinar "TD") and Romanian Leu ("**LEU**") balances. The following table summarizes the Company's foreign currency exchange risk for each of the currencies indicated:

	December 31, 2013				December 31, 2012	
(Thousands)	CAD	UAH	TD	LEU	CAD	UAH
Cash and cash equivalents	112	22,027	446	947	124	127,488
Accounts receivable	103	22,640	16,793	120	267	11,759
Prepaid expenses	318	46,479	97	-	248	2,796
Accounts payable and accrued liabilities	(879)	(66,266)	(17,261)	(498)	(422)	(92,943)
Net foreign exchange exposure	(346)	24,880	75	569	217	49,100
US $ equivalent at period end exchange rate	$ (325)	$ 3,001	$ 46	$ 177	$ 218	$ 6,143

For the year ended December 31, 2013, based on the net foreign exchange exposure at the end of the period, if the Canadian dollar 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 $28 thousand (2012 - $10 thousand). Earnings are not impacted by fluctuations in the Hryvnia as translation gains and losses are included in accumulated other comprehensive loss.

(d) Liquidity risk

The Company monitors 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 from operating cash flow, new equity issuances or alternative sources of financing such as farm-out agreements. 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. 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.

(e) Commodity price risk

The Company is exposed to risks due to fluctuations in the price of natural gas in the 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 the market price of brent crude oil is impacted by market risk factors. The Company has no commodity hedge program in place which could potentially mitigate the price risk.

21. Related party transactions

Nemmoco Petroleum Corporation ("**Nemmoco**"), a private company of which 37.5% is owned by Timothy M. Elliott, an officer and director of the Company, provides certain personnel and general, accounting and administrative services to the Company at its offices in Dubai on a cost-sharing basis. For the year ended December 31, 2013, the fees totalled $788,624 (2012 - $712,224). At December 31, 2013, $22,819 was owed to Nemmoco (2012 - $25,538).

Loon Energy Corporation ("**Loon Energy**"), a publicly traded Canadian corporation, has no employees. Management and administrative services are provided by the management and staff of Serinus. For the year ended December 31, 2013, these fees totalled $11,654 (2012 - $12,605). At December 31, 2013, Loon Energy owed Nil (2012 – $12,605) to Serinus for these services. Certain expenditures of Loon Energy are paid for by Serinus and Loon Energy reimburses Serinus for these expenditures. As at December 31, 2013, Loon Energy owed nil (2012 – $85,508) for these costs. Serinus and Loon Energy are related as they have five common directors and officers and the same principal shareholder.

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

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

Until Mid-October 2013, the Company provided office space to Jura, a public company in which the Company owned 1.1% of the outstanding common shares at December 31, 2013. In 2013, the Company charged fees and associated costs to Jura totalling $19,891 (2012 – $56,317). At December 31, 2013, $nil (2012 – Nil) was due from Jura. Until the third quarter of 2012, three directors of the Company were directors of Jura, and the Chief Financial Officer of the Company was also the Chief Financial Officer of Jura.

On June 22, 2012, the Company entered into a loan agreement with KI for a maximum of $12.0 million. The loan bore interest at 15% and was scheduled to mature on December 31, 2013. As a condition of the Arrangement, this debt was converted to common shares at the time of closing the Arrangement. Consequently, the debt was converted to common shares and KI was issued 3,183,268 post-consolidation common shares relating to the aggregate conversion of principal and interest in the amount of $13.4 million.

In August 2011, the Company entered into unsecured convertible debenture agreements with KI and Radwan. The total amount available under the debentures was $23.5 million, interest was at a rate of 8.0% per annum, and the debentures matured on August 11, 2012. On maturity, the $23.5 million principal and all accrued interest was converted to 60,499,029 pre-consolidation common shares. The convertible debentures also included a provision for an implied additional 12.0% in interest which was paid in common shares upon conversion.

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

Serinus Energy Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(Stated in US dollars)

22. Segmented information

The Company's reportable segments are organized by geographical areas and consist of Romania, Tunisia, Brunei, Syria, Ukraine and corporate.

(Thousands of US dollars)

As at December 31, 2013	**Romania**	**Tunisia**	**Brunei**	**Ukraine**	**Corporate**	**Total**
Total Assets	$ 1,357	$ 183,988	$ 1,062	$ 120,862	$ 5,204	$ 312,473
For the year ended December 31, 2013						
Oil and gas revenue, net of royalties	$ -	$ 24,850	$ -	$ 87,386	$ -	$ 112,236
Operating expenses:						
Production expense	-	(5,750)	-	(15,176)	-	(20,926)
General and administrative	-	(319)	-	(1,746)	(10,002)	(12,067)
Transaction costs	-	-	-	-	(4,487)	(4,487)
Stock based compensation	-	-	-	-	(2,927)	(2,927)
Loss on disposition of assets	-	-	-	-	-	-
Depletion/depreciation	(2)	(6,552)	-	(21,077)	(151)	(27,782)
Impairment on exploration and evaluation assets	-	-	(83,053)	-	-	(83,053)
Finance income/(expense)						
Interest and other income	-	20	-	564	6	590
Unrealized loss on investment	-	-	-	-	(145)	(145)
Interest expense and accretion	-	(647)	-	(2,415)	(1,347)	(4,409)
Foreign exchange gain/(loss)	9	39	-	(1,311)	89	(1,174)
Earnings (loss) before tax	$ 7	$ 11,641	$ (83,053)	$ 46,225	$ (18,964)	$ (44,144)
Current tax expense	$ -	$ (5,543)	$ -	$ (10,482)	$ -	$ (16,025)
Deferred tax recovery/(expense)	$ -	$ 1,200	$ -	$ 1,443	$ -	$ 2,643
Net Earnings (loss)	$ 7	$ 7,298	$ (83,053)	$ 37,186	$ (18,964)	$ (57,526)
Capital expenditures	$ 788	$ 2,681	$ 42,146	$ 30,034	$ (89)	$ 75,560

(Thousands of US dollars)

As at December 31, 2012	**Brunei**	**Syria**	**Ukraine**	**Corporate**	**Total**
Total Assets	$ 41,987	$ 620	$ 139,904	$ 5,198	$ 187,709
For the year ended December 31, 2012					
Oil and gas revenue, net of royalties	$ -	$ -	$ 80,120	$ -	$ 80,120
Operating expenses:					
Production expense	-	-	(12,223)	-	(12,223)
General and administrative	-	-	-	(9,498)	(9,498)
Transaction costs	-	-	-	(4,193)	(4,193)
Stock based compensation	-	-	-	(1,968)	(1,968)
Loss on disposition of assets	(205)	-	-	-	(205)
Depletion/depreciation	-	-	(25,824)	(6)	(25,830)
Impairment on exploration and evaluation assets	(85,491)	(2,248)	-	-	(87,739)
Finance income/(expense)					-
Interest and other income	-	-	806	1,753	2,559
Unrealized loss on investment	-	-	-	(82)	(82)
Interest expense and accretion	-	-	(5,578)	(2,509)	(8,087)
Foreign exchange gain/(loss)	-	-	310	(491)	(181)
Earnings (loss) before tax	$ (85,696)	$ (2,248)	$ 37,611	$ (16,994)	$ (67,327)
Current tax expense	$ -	$ -	$ (9,681)	$ -	$ (9,681)
Deferred tax recovery (expense)	$ -	$ -	$ (1,974)	$ -	$ (1,974)
Net Earnings (loss)	$ (85,696)	$ (2,248)	$ 25,956	$ (16,994)	$ (78,982)
Capital expenditures	$ 20,687	$ 154	$ 35,947	$ 144	$ 56,932