

SERINUS ENERGY INC.

Management's Discussion and Analysis
For the three months ended March 31, 2014
(US Dollars)

*This Management's Discussion and Analysis ("MD&A") for Serinus Energy Inc. ("**Serinus**", or "**the Company**") should be read in conjunction with the Company's unaudited Condensed Consolidated Financial Statements as at and for the period ended March 31, 2014 and the December 31, 2013 annual consolidated financial statements and MD&A ("**the Consolidated Financial Statements**"). Readers should also read the "Forward-Looking Statements" legal advisory contained at the end of this document.*

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

*This MD&A uses United States dollars ("**US Dollars**") which is the reporting currency of the Company. The consolidated financial statements for March 31, 2014 are prepared in accordance with in accordance with IAS 34 Interim Financial Reporting and do not include all the information required for full annual financial statements. This document is dated May 13, 2014.*

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

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Financial Highlights

- During Q1 2014, net production levels (being the Company's production from Tunisia and its net 70% interest in Ukraine) averaged 4,849 boe per day, compared to 3,151 boe per day for Q1 2013, an increase of 54%. The Company acquired its Tunisian assets on June 24, 2013 as part of the acquisition of Winstar Resources Limited ("**Winstar**"), therefore Q1 2013 does not include any operating results from the Winstar assets, as the results of operations of Winstar have been included in the consolidated financial statements of Serinus from June 24, 2013 onwards. The increase reflects Tunisian production of 1,345 boe/d, and an increase in Ukraine production of 353 boe/d as a result of capital programs during 2013. Production for Q1 2014 was weighted 77% (Q1 2013 -96 %) natural gas with the remainder consisting of oil and condensate production.
- Average natural gas prices in Ukraine were lower in Q1 2014 at \$8.55 per Mcf compared to \$11.61 per Mcf in the comparable period. The decrease in price is attributable to incentives Russia granted to Ukraine on their imported gas prices and deterioration in the hryvnia as compared to the US dollar. The average effective exchange rate for the hryvnia during Q1 2014 was 9.30 UAH/USD, as compared to 8.16 UAH/USD in the comparable quarter. Effective April 1, 2014, the natural gas discounts expired, resulting in a realized price of approximately \$9.13 per Mcf during April, 2014. Natural gas prices realized in Tunisia were \$14.18/ Mcf and crude oil sales in Tunisia realized an average price of \$108.06 per bbl for the quarter.
- The netback for Q1 2014 overall for the Company was \$38.27 per boe, compared to \$40.08 in Q1 2013. The decrease is attributable to a lower netback in Ukraine of \$30.85 as compared to Q1 2013 of \$40.08, driven by lower natural gas realized prices, partially offset by a higher netback in Tunisia included in Q1 2014 of \$65.86 per boe.
- Funds generated from operations were \$14.9 million in Q1 2014 as compared to \$10.0 million for Q1 2013. Funds from operations increased from 2013 due to the Winstar acquisition. On a per share basis funds from operations remained comparable period over period at \$0.19 in Q1 2014 compared to \$0.21 in Q1 2013.
- Revenue, net of royalties increased to \$27.9 million for Q1 2014 compared to \$21.2 million for Q1 2013. The increase is attributable to the Winstar acquisition.
- Cash payments were successfully made out of the Ukraine in the first quarter of 2014. Intercompany loans of \$3.6 million were repaid and dividends of \$1 million were paid from cash generated from Ukrainian operations. Since acquisition total dividends of \$41 million have been paid out by Kub-Gas LLC.
- The Company executed a capital program in Q1 2014 of \$10.2 million primarily concentrated on completing the drilling of the M17 well in Ukraine, completion of the work on the Makeevskoye gas facility in Ukraine and drilling preparations in Tunisia and Romania. During the second quarter of 2014, the Company is expects to begin its drilling program in Tunisia as well as its six well work over campaign.

Overview

Serinus is an international oil and gas exploration and production company with operations in Ukraine, Tunisia, Brunei, Romania, and interests in Syria. The Company has management offices in Calgary (Canada), Dubai (United Arab Emirates) and in Warsaw (Poland).

On June 11, 2010, the Company completed the acquisition of an effective 70% ownership interest in KUB-Gas LLC ("**KUB-Gas**"), a Ukrainian company which owns assets from which all of the Company's revenues were produced prior to the acquisition of Winstar in June 2013. Prior to June 11, 2010, none of the Company's oil and natural gas projects had any production. All the KUB-Gas shares are held through KUBGAS Holdings Limited ("**KUB Holdings**"), a private company incorporated in Cyprus, which is 70% owned by the Company.

The Company controls KUB Holdings and is required under International Financial Reporting Standards ("**IFRS**") to consolidate the results of KUB Holdings and KUB-Gas into its financial statements, and in doing so the Company has reported 100% of the revenues, royalties and production and other expenses for KUB Holdings and KUB-Gas. Similarly, the Company reports 100% of the assets and liabilities of KUB Holdings and KUB-Gas on its consolidated balance sheet.

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

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On June 24, 2013, the Company closed a plan of Arrangement with Winstar pursuant to which the Company acquired all of the issued and outstanding shares of Winstar. With this acquisition the Company acquired its interest in Tunisia and Romania.

The Company's activities are focused on the further development of producing assets in Ukraine and Tunisia and on the acquisition and evaluation of various exploration projects, which are in the pre-production phase. The Company believes it has demonstrated its ability to source, negotiate and conclude agreements for exploration, development and production opportunities, and to mitigate risk as well as partially finance the expenditure commitments pursuant to these agreements via farm-out arrangements. Capital expenditures and operations are also funded through debt facilities and through internally generated net production revenue. Management intends to continue following this successful business model in developing future opportunities while it continues to develop existing oil and gas assets.

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, resulted in the removal of the president and change of the government and heads of key governing bodies. The crisis further unfolded in late February 2014 when pro-Russian and pro-Ukraine protesters clashed in Crimea. Following a referendum in March, the Crimean parliament declared Crimea's independence from Ukraine and Crimea was annexed to Russian Federation. Unrests, stirred by pro-Russian groups that the Ukrainian government claims to be sponsored by Russia to create a pretext for invading the country, continue in eastern Ukraine. Another referendum was organized by pro-Russian separatist groups in the Donetsk and Lugansk regions of eastern Ukraine on May 11. Its organizers announced that the results were overwhelmingly pro-separatist and implied that the next logical step would be joining Russia. There are indications that the referendum's results were distorted due to poor organization and control that enabled multiple voting and that the participation in the referendum was significantly lower than announced as a large part of the population opposing separation stayed away, partially due to the intimidating presence of armed pro-separatists. On May 12, 2014, the BBC reported that Moscow has so far not commented on the call for Donetsk to become part of Russia but has appealed for dialogue between the militants and Kiev, with the participation of the Organization for Security and Co-operation in Europe. The United States, European Union and Ukrainian government consider both referendums to be illegal. The United States and European Union have declared sanctions against selected Russian individuals and companies.

Recent events 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 significant devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions.

Ukrainian interim government has approached international lenders with the request to provide financing in order to stabilize the country's macroeconomic situation. On April 30, 2014 the International Monetary Fund committed to a \$17 billion two-year aid program to help the country's economic recovery. 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.

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UKRAINE

As at March 31, 2014 KUB-Gas owns the following licenses in Ukraine:

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

The Company may produce gas and gas condensate under the exploration licence in an amount up to 10% of total estimated reserves as approved by the licensor, the Ministry for Environmental Protection of Ukraine, and may not exceed the cap during the exploration status. The Company can convert exploration licences into production licences which allow unlimited production of gas and gas condensate over the terms of the licences, and which are generally 20-25 years in duration. During the third quarter of 2013 the Company converted the Krutogorovskoye field exploration licence into a production licence.

The Company began to generate revenues with its acquisition of its interest in the licences in June 2010, and since that time has generated \$210.9 million of revenue, net of royalties, in aggregate from these assets, of which \$147.6 million is net to the 70% interest held by Serinus.

TUNISIA

Effective June 24, 2013, the Company acquired working interests in the Chouech Es Saida, Ech Chouech, Sanrhar, Sabria and Zinnia concessions in Tunisia. Four of the concessions are currently producing oil or gas.

As at March 31, 2014, the Company has the following interests in the concessions:

Concession	Working interest	Expiry date
Chouech Es Saida	100%	December 2027
Ech Chouech	100%	June 2022
Sabria	45%	November 2028
Zinnia	100%	December 2020
Sanrhar	100%	December 2021

The Tunisian state oil and gas company, Enterprise Tunisienne d'Activites Petroliere ("ETAP"), has the right to back into the Chouech Es Saida concession for up to a 50%, if and when the cumulative liquid hydrocarbon sales, net of royalties and shrinkage, from the concession exceed 6.5 million barrels. As at March 31, 2014, cumulatively 4.8 million barrels, net of royalties and shrinkage have been sold from the concession.

BRUNEI BLOCK L

In Brunei, the Company holds a 90% working interest in the Brunei Block L production sharing agreement ("Block L PSA") which gives the Company and the other parties thereto the right to explore for and, upon fulfillment of certain conditions, the right to produce oil and gas from Block L, a 1,123 square kilometre (281,000 acre) area covering certain onshore and offshore areas. The Company is Operator of the Block. The minimum expenditure commitment under phase 2 of the exploration period was \$16 million, which was met as at December 31, 2012 and the remaining work commitments were to drill at least two onshore exploration wells, each to a minimum of 2,000 metres. The first well, Lukut Updip-1 drilled to a total depth of 2,137 metres measured depth and suspended pending further evaluation after encountering very high formation pressures and gas. Due to the significantly higher than expected formation pressures and equipment limitations, the Company determined that it could no longer safely continue to drill the well and casing was set to a depth of 2,120 metres after a cement plug had been placed in the well. Testing of the heavily damaged zones subsequent to the end

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of the third quarter produced gas at non-commercial rates. The rig and equipment were moved to the second drilling location Luba-1, which was drilled to a total measure depth of 1,720 metres and suspended pending further evaluation after attempts to recover the bottom hole assembly ("BHA"), which was stuck in the well, were not successful.

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. The Company, together with Petroleum Brunei, are in the process of evaluating the drilling campaign with a view to determining a way forward.

As at March 31, 2014, the Brunei Block L assets are fully impaired.

ROMANIA

With the acquisition of Winstar, the Company has become party to a joint venture agreement with Rompetrol S.A. ("**Rompetrol**"), under which, by fulfilling certain commitments consisting of processing and acquiring seismic and the drilling of exploration wells, the Company earned a 60% interest in the 2,949 square kilometre onshore Satu Mare exploration concession agreement in north western Romania. The Company has fulfilled 100% of the first stage of the work commitments required under the concession agreement, and has committed to a second phase of exploration. The second stage, which expires in May 2015, includes the drilling of two exploration locations and the acquisition of 180 km of 3D seismic, which, under the terms of the joint venture agreement, the Company is required to fund 100%. The Company expects to complete phase 2 in 2014.

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

SYRIA

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

Effective July 16, 2012 the Company, in its capacity as Operator of Block 9 in Syria, gave notice to the Ministry of Petroleum and Mineral Resources of its declaration of force majeure. The circumstances leading to the force majeure included conditions arising from the current instability, including difficult operating conditions and the inability to move funds into the country, rendering performance of the Company's obligations under the contract impossible and all of the circumstances beyond the Company's reasonable control. The exploration period of the Block was due to expire on October 27, 2012. The first exploration well, the Itheria 1 well, remains suspended at a depth of 2,072 metres.

As at March 31, 2014, the Company's Syrian assets are fully impaired as the project remains suspended. The Company continues to monitor the situation, but no definite plans can be made with respect to the timing of a potential return to Syria to continue with the exploration of Block 9.

MINOR ASSETS

As part of the Winstar acquisition, the Company acquired interests in a minor property at Sturgeon Lake in Alberta, Canada. The Company plans to dispose of the asset during 2014. This asset is not currently producing and has a future abandonment liability associated with it of \$1.4 million.

In addition, as part of the Winstar acquisition, the Company acquired a 4% net profits interest in the Igal II Exploration permit in Hungary. The Company expects to wind up its Hungarian operations in 2014.

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Non-Controlling interest

The Company controls KUB Holdings and is required under International Financial Reporting Standards (“IFRS”) to consolidate the results of KUB Holdings and KUB-Gas into its financial statements, and in doing so, report 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 balance sheet. The 30% share of the net assets of KUB Holdings and KUB-Gas attributable to the minority shareholder in KUB Holdings is then presented by way of a one line entry as “non-controlling interest” within shareholders’ equity on the balance sheet. Net earnings and comprehensive earnings for the year are presented in the table below to show the allocation between the Company’s 70% shareholdings and the non-controlling 30% shareholder’s interest.

Substantially all financial and production analysis in this MD&A reflect the 100% interest in the results of KUB Holdings and KUB-Gas. The table below summarizes the Q1 2014 results reported by the Company in accordance with IFRS, including 100% of KUB Holdings and KUB-Gas as described above, then removes the 30% share allocable to the non-controlling interest to reflect the net results of operations attributable to the Company’s 70% economic interest.

<i>(Thousands of US dollars except volume amounts)</i>	As reported	Allocated to non- controlling interest	Net to Serinus
Total daily production (boe)	6,351	(1,502)	4,849
Oil and gas revenue	\$ 35,863	\$ (7,033)	\$ 28,830
Royalties	(7,949)	1,888	(6,061)
Oil and gas revenues, net of royalties	27,914	(5,145)	22,769
Production expenses	(6,042)	976	(5,066)
General and administrative	(1,985)	4	(1,981)
Transaction costs	(983)	-	(983)
Stock-based compensation	(1,030)	-	(1,030)
Depletion and depreciation	(8,297)	1,576	(6,721)
Impairment of exploration and evaluation assets	(337)	-	(337)
Interest and other income	204	(61)	143
Foreign exchange gain/(loss)	(3,644)	1,080	(2,564)
Unrealized gain (loss) on investments	42	-	42
Interest expense and accretion	(1,314)	138	(1,176)
Earnings before taxes	4,528	(1,432)	3,096
Current tax expense	(2,934)	507	(2,427)
Deferred tax expense	1,140	(152)	988
Earnings for the period	\$ 2,734	\$ (1,077)	\$ 1,657
Funds from operations	\$ 14,867	\$ (3,552)	\$ 11,315

Funds from Operations

As noted in the non-IFRS measures section of this MD&A, the Company uses funds from operations as a key performance indicator to measure the ability of the Company to generate cash from operations to fund future exploration activities.

Funds flow from operations is calculated based on cash flow from operating activities before changes in non-cash working capital and transaction costs.

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The following table reconciles the cash flow from operating activities to funds from operations:

(Thousands of US dollars except per share amounts)

	Three months ended March 31,	
	2014	2013
Cash flow from operations	\$ 4,653	\$ 9,134
Changes in non-cash working capital	10,214	827
Funds from operations	<u>\$ 14,867</u>	<u>\$ 9,961</u>
Funds from operations per share	<u>\$ 0.19</u>	<u>\$ 0.21</u>

Positive funds from operations are generated in Ukraine and Tunisia, representing the Company's producing assets for the period. Funds from operations generated were sufficient to cover the operating cash outflows for the rest of the Company.

Funds from operations increased by \$4.9 million in Q1 2014 to \$14.9 million compared to Q1 2013 of \$10.0 million. The increase in funds from operations compared to Q1 2013 is primarily attributable to the acquisition of Winstar, increased production in Ukraine offset by lower natural gas prices.

Production

	Three months ended March 31,	
	2014	2013
Average Daily Production (net to Serinus)		
Crude Oil (bbl/d)	1,024	-
Natural gas (mcf/d)	22,355	18,067
Natural gas liquids (bbl/d)	99	140
Total boe/d	<u>4,849</u>	<u>3,151</u>
Production by Location (boe/d)		
Ukraine	3,504	3,151
Tunisia	1,345	-
Total boe/d	<u>4,849</u>	<u>3,151</u>

Production volumes increased by 54% in Q1 2014 to 4,849 boe/d, net to Serinus, compared to 3,151 boe/d in the comparable period of 2013. The increase in 2014 reflects Tunisian production of 1,345 boe/d and an increase of 11% in production volumes from Ukraine.

UKRAINE

	Three months ended March 31,	
	2014	2013
Average Daily Production (net to Serinus)		
Natural gas (mcf/d)	20,427	18,067
Natural gas liquids (bbl/d)	99	140
Total boe/d	<u>3,504</u>	<u>3,151</u>

In Ukraine, production volumes increased by 11% in Q1 2014 to average 3,504 boe/d, compared to 3,151 boe/d in the comparable period of 2013. The increase is a result of the successful drilling campaign in 2013 including the M-16 well.

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Gas began flowing through the new treatment facility at Makeeyskoye on March 6, 2014. This new facility increased that the throughput capacity, from approximately 30 MMcf/d to 68 MMcf/d, for the for the Olgovskoye and Makeevskoye fields. While this work was completed by the end of the first quarter, full production gains are pending the re-routing of gas production from the M16 well to the new Makeevskoye gas plant. The M16 well is producing through the Olgovskoye gas plant, and as the M16 produces from the Serpukhovian reservoir at a significantly higher pressure than the wells from the Olgovskoye field, the resulting back pressure is restricting production. The re-routing is expected to be completed and permitted by the middle of May 2014. The Company anticipates that once complete, these modifications will increase gross production by at least 3 MMcf per day (2.1 MMcf per day net to the 70% interest).

TUNISIA

	Three months ended March 31,	
	2014	2013
Average Daily Production (net to Serinus)		
Crude Oil (bbl/d)	1,024	-
Natural gas (mcf/d)	1,928	-
Total boe/d	1,345	-

In Tunisia, production averaged 1,345 boe/d for the three months ended March 31, 2014. Production is predominantly from the Chouech Es Saida and Sabria fields, which account for 90% of the production from Tunisia. Minimal capital expenditures have been incurred on the Tunisian properties since acquisition, as the Company has been conducting a full technical review of the assets and planning for field implementation of the 2014 work program which began in April with a workover of 2 wells using a coil tubing unit. A two well drilling program is expected to commence at the beginning of June, 2014.

Oil and natural gas sales

	Three months ended March 31,	
	2014	2013
<i>(Thousands of US dollars except per unit amounts)</i>		
Crude oil	\$ 9,956	\$ -
Natural gas	24,908	26,971
Natural gas liquids	999	1,738
	\$ 35,863	\$ 28,709

Ukraine

Natural gas (\$/mcf)	\$ 8.55	\$ 11.61
Natural gas liquids (\$/bbl)	78.19	95.69
Average price (\$/boe)	\$ 52.04	\$ 70.86

Tunisia (a)

Crude Oil(\$/bbl)	\$ 108.06	\$ -
Natural gas (\$/mcf)	14.18	-
Average price (\$/boe)	\$ 102.57	\$ -

(a) Operating results from Tunisia are included from June 24, 2013, the date of acquisition, onwards.

Oil and gas revenue increased by 25% in Q1 2014 as compared to Q1 2013, reflecting revenues attributable to Winstar (Tunisia) since July 1, 2013.

In Ukraine, revenues totalled \$23.4 million for Q1 2014, as compared to \$28.7 million in Q1 2013. The decrease of 19% is attributable to a decrease in the average commodity price of 27% partially offset by increased volumes of 11%.

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Ukraine natural gas commodity prices were lower in Q1 2014 compared to the same period in 2013, with a realized natural gas price of \$8.55 per Mcf, compared to \$11.61 per Mcf for Q1 2013. The domestic gas price within Ukraine is set by the National Electricity Regulatory Commission of Ukraine by reference to the Russian imported gas price.

In Ukraine, the majority of the Company's production is marketed and sold to wholesalers, who then sell to industrial users. With the previous agreement between Russia and Ukraine, the government of Ukraine had published maximum natural gas prices by quarter for 2014 for the sale of natural gas to industrial consumers resulting in the realized price of \$8.55 per Mcf for Q1 2014. This price reflects both the discounts on the Russian gas, and the ongoing deterioration of the Ukrainian Hryvnia versus in particular the US Dollar. Effective April 1 2014, the discounts on Russian gas expired with the announced gas price for April being 4,020 UAH per Mcm or \$9.13 per Mcf using an average exchange rate of 11.89 UAH/USD. The actual price received by Kub-Gas is approximately 9-10% less for the profit margin of the wholesalers.

Oil sales for Tunisia included volumes loaded onto tankers, which generally occurs every two months, as well as the change in the net realizable value of oil inventory. During Q1 2014, the Company had two tanker liftings in February and March, resulting in the Company selling more volumes that it produced, resulting in an over lift position of approximately 1,717 bbls at March 31, 2014. When applicable, inventory is recorded at net realisable value. An over lift amount is recognised as deferred revenue in accounts payable, as at March 31, 2014, the deferred revenue was \$0.2 million.

Tunisian revenues of \$12.4 million reflect an average crude oil price of \$108.06 per bbl. Oil prices in Tunisia are based on a premium to Brent over the 3 day lifting period. The Company is required to sell 20% of its annual oil production from the Sabria concession into the local market, which is sold at an approximate 10% discount to the price obtained on its other crude sales. Natural gas prices are nationally regulated and are tied to the twelve month trailing average of low sulphur heating oil (benchmarked to Brent).

Royalties

<i>(Thousands of US dollars except per unit amounts)</i>	Three months ended March 31,	
	2014	2013
Ukraine	\$ 6,294	\$ 7,547
Tunisia (a)	1,655	-
Total royalties	\$ 7,949	\$ 7,547
\$/boe	\$ 13.91	\$ 18.63
Royalties by Location as a percentage of sales		
Ukraine	26.8%	26.3%
Tunisia	13.3%	-
	22.2%	26.3%

(a) Operating results from Tunisia are included from June 24, 2103, the date of acquisition, onwards.

The average royalty rate for Q1 2014 was 22.2% as compared to 26.3% in Q1 2013. The Ukraine royalty rate has remained consistent year over year, the decrease is attributable to lower royalty rates in Tunisia.

Commencing January 2013, royalty rates in Ukraine were set at rates of 25% for natural gas and 39% for condensate. Effective April 1, 2014, the government of Ukraine announced an increase in royalty rates to 28% for natural gas and 42% for condensate.

In Tunisia, royalties are based on individual concession agreements, which do not exceed 15%. In two concessions, Sabria and Zinnia, the royalty rate varies depending on a calculation of cumulative revenues, net of taxes, as compared to cumulative investment in the concession, known as the "R factor". As the R factor increases, so does the royalty percentage to a maximum rate of 15%.

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For the first quarter for 2014, the Tunisia royalty rate is 13.3%. This is a decrease from the rate of 15% during the last six months of 2013. The decrease is due to lower royalty rates in Sabria for 2014. The royalty rate in Sabria is based on an R-factor calculation, which is estimated based on the 2014 budgeted information, and resulted in a lower royalty rate in 2014 when compared to 2013 due to the capital program planned for 2014.

Production expenses

<i>(Thousands of US dollars except per unit amounts)</i>	Three months ended March 31,	
	2014	2013
Ukraine	\$ 3,253	\$ 4,919
Tunisia (a)	2,789	-
Production expenses	\$ 6,042	\$ 4,919
Production expense by location (\$/boe)		
Ukraine	\$ 7.22	\$ 12.15
Tunisia	23.04	-
	\$ 10.57	\$ 12.15

(a) Operating results from Tunisia are included from June 24, 2103, the date of acquisition, onwards.

On an absolute basis, production expenses have increased 23% to \$6.0 million in Q1 2014 from \$4.9 million in Q1 2013, though have decreased on a per boe basis to \$10.57 per boe from \$12.15 per boe.

The increase in absolute dollars during the first quarter of 2014 is due to the inclusion of production costs related to Tunisia of \$2.8 million offset by a reduction of \$1.7 million in Ukraine driven by the impact of the weakening of Ukrainian Hryvnia as the Ukraine business is reported in US dollars.

On a per boe basis, production expenses decreased to \$10.57 per boe in Q1 2014 compared to \$12.15 per boe in Q1 2013. Ukraine production expense reduced from \$12.15 per boe to \$7.22 per boe due to the weakening of Ukrainian Hryvnia as the Ukraine business is reported in US dollars. Tunisia production has higher average production expenses as compared to Ukraine, and for Q1 2014 these averaged of \$23.04 per boe. Tunisia's production is weighted to oil which has a higher cost to produce than the Ukraine natural gas properties due to the desert terrain and drilling depth.

Oil and Gas Netback

Ukraine Netback by Commodity (Volume in thousand)	Three months ended March 31,			Three months ended March 31,		
	2014			2013		
	Oil and liquids			Oil and liquids		
	Gas (Mcf)	(bbl)	Total (boe)	Gas (Mcf)	(bbl)	Total (boe)
Average daily sales volumes (gross)	29,181	142	5,006	25,810	199	4,500
Average daily sales volumes (net to Serinus)	20,427	99	3,504	18,067	140	3,151
Revenue	\$ 8.55	\$ 78.19	\$ 52.04	\$ 11.61	\$ 95.69	\$ 70.86
Royalty expense	(2.25)	(30.51)	(13.97)	(2.97)	(36.47)	(18.63)
Production expenses	(1.24)	-	(7.22)	(2.12)	-	(12.15)
Netback	\$ 5.06	\$ 47.68	\$ 30.85	\$ 6.52	\$ 59.22	\$ 40.08

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Tunisia Netback by Commodity (Volume in thousand)	Three months ended March 31,		
	2014		
	Oil and liquids		
	Gas (Mcf)	(bbl)	Total (boe)
Average daily sales volumes (net to Serinus)	1,928	1,024	1,345
Revenue	\$ 14.18	\$ 108.06	\$102.57
Royalty expense	(1.83)	(14.51)	(13.67)
Production expenses	(3.78)	(23.15)	(23.04)
Netback	\$ 8.57	\$ 70.40	\$ 65.86

In Ukraine, the netback decreased to \$30.85 per boe in Q1 2014 compared to \$40.08 per boe in the comparable period of 2013, due to lower realized prices offset by lower royalties and lower production expenses.

In Tunisia, the netback was \$65.86 per boe for Q1 2014 compared to \$59.47 in Q4 2013. The increase in Q1 2014 compared to Q4 2013 is due to lower royalty rates and lower operating expenses. Operating expenses are lower in Q1 2014 due to certain increases seen in Q4 2013 relating to staff related costs and increased safety and training costs that did not recur in Q1 2014. Operating results from Tunisia are included from June 24, 2013, the date of acquisition, onwards, therefore there are no Q1 2013 comparative figures for Tunisia.

General and Administrative

<i>(Thousands of US dollars except per unit amounts)</i>	Three months ended March 31,	
	2014	2013
General and administrative	\$ 1,985	\$ 3,239
\$/boe	\$ 3.47	\$ 8.00

General and administrative (“G&A”) costs for Q1 2014 have decreased to \$2.0 million, a decrease of \$1.3 million compared to Q1 2013 due to additional recoveries for time charged to the operating, development and exploration activities. Included in Q1 2013 were one off charges of \$1.6 million for consulting services provided in Ukraine.

On a per boe basis, G&A costs have decreased by 57 % to \$3.47 per boe for the quarter compared to \$8.00 per boe in the comparable period in 2013 due to increased production.

G&A costs incurred by the Company are expensed, with certain costs directly related to exploration and development assets being capitalized.

Transaction Costs

<i>(Thousands of US dollars except per unit amounts)</i>	Three months ended March 31,	
	2014	2013
Transaction costs	\$ 983	\$ 500
\$/boe	\$ 1.72	\$ 1.23

Transaction costs are project related expenditures. The Q1 2014 expense comprises of costs associated with listing of shares issued on the Winstar acquisition on the Warsaw stock exchange and other corporate related projects.

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Stock based compensation

<i>(Thousands of US dollars except per unit amounts)</i>	Three months ended March 31,	
	2014	2013
Stock based compensation	\$ 1,030	\$ 227
\$/boe	\$ 1.80	\$ 0.56

Stock based compensation was \$1.0 million for Q1 2014 (Q1 2013 - \$0.3 million). The increase in Q1 2014 reflects the number of options granted and immediately vested, whereas fewer options were granted during the comparable period of 2013. Under the terms of the stock option plan, when options are granted 1/3 vest immediately and then 1/3 vests on the anniversary of grant date for each of the two subsequent years. These terms result in a proportionally higher expense in the period of grant as compared to later periods.

Depletion and Depreciation and Impairment

<i>(Thousands of US dollars except per unit amounts)</i>	Three months ended March 31,	
	2014	2013
Ukraine	\$ 5,253	\$ 5,047
Tunisia	3,013	-
Corporate	31	40
Depletion and depreciation (" D&D ")	\$ 8,297	\$ 5,087
Impairment	\$ 337	\$ -
D&D by location (\$/boe)		
Ukraine	\$ 11.66	\$ 12.46
Tunisia	24.89	-
	\$ 14.52	\$ 12.56

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

The depletion and depreciation expense in Q1 2014 was \$8.3 million compared to \$5.1 million in Q1 2013, an increase of 63% attributable to the Tunisian assets.

Impairment of \$0.3 million in Q1 2014 reflects adjustments to the impairment of Brunei Block L. 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 cash generating unit was impaired by the full amount spent to date. The Company together with Petroleum Brunei are in the process of evaluating the drilling campaign with a view to determining a way forward.

Interest expense and accretion

<i>(Thousands of US dollars)</i>	Three months ended March 31,	
	2014	2013
Interest on long-term debt	\$ 601	\$ 952
Interest on convertible note payable and convertible debentures	450	419
Other interest charges	49	-
Accretion	214	11
	\$ 1,314	\$ 1,382

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Interest and accretion expense in Q1 2014 was \$1.3 million (Q1 2013 - \$1.4 million). The decrease in the current quarter was attributable to lower debt levels, resulting from the conversion of the note payable in June 2013 and principal repayments on the EBRD loan partially offset by inclusion of accretion expense associated with the Winstar properties.

Foreign exchange loss

<i>(Thousands of US dollars)</i>	Three months ended March 31,	
	2014	2013
Foreign exchange loss	\$ 3,644	\$ 260

Foreign exchange loss in Q1 2014 was \$3.6 million (Q1 2013-\$0.3 million). A majority of the increase in the current quarter is attributable to a 38% deterioration of the Hryvnia versus the US dollar, which when applied to US dollar balances outstanding within the Ukraine subsidiary, create an unrealized foreign exchange loss.

Summarized Balance Sheet (\$'000's)

<i>(Thousands of US dollars)</i>	As at March 31, 2014	As at December 31, 2013	As at December 31, 2012
Total current assets	\$ 36,799	\$ 37,039	\$ 40,305
Total non-current assets	254,023	275,434	147,404
Total assets	290,822	312,473	187,709
Total current liabilities	54,186	60,171	39,088
Total non-current liabilities	82,202	81,758	25,171
Total liabilities	136,388	141,929	64,259
Total share capital	344,479	344,403	231,516
Total equity	\$ 154,434	\$ 170,544	\$ 123,450

Total Assets

Total assets as at March 31, 2014 were \$290.8 million compared to \$312.5 million as at December 31, 2013. The decrease is due to the continued decline in the exchange rate between the Ukraine hryvnia and the US Dollar. This resulted in an unrealised loss of \$25.2 million.

Total Liabilities

Total liabilities as at March 31, 2014 were \$136.4 million compared to \$141.9 million as at December 31, 2013, a decrease of \$5.5 million. The decrease is due to decline in the exchange rate between the Ukraine hryvnia and the US Dollar of \$5.9 million, a scheduled repayment of \$1.9 million on the EBRD- Ukraine loan and an outflow of \$1.8 million in current liabilities, offset by a draw of \$5.0 million on the EBRD-Tunisia loan.

The Company and its subsidiaries in Ukraine and Tunisia were in compliance with all of the EBRD's financial ratio debt covenants and Serinus was in compliance with the Dutco loan financial covenant as at March 31, 2014.

Capital Expenditures

Capital expenditures consist of expenditures incurred on assets which are in the exploration and evaluation stage and include expenditures incurred on wells and seismic acquisition and processing. For these assets, the technical feasibility and commercial viability of the underlying property has yet to be determined. Exploration and evaluation assets ("E&E") are not subject to depletion and depreciation, but are subject to impairment. As at March 31, 2014, this includes certain Ukraine assets, the Brunei and the Romanian assets. Expenditures incurred on assets for which technical feasibility and commercial viability have been determined are classified as property, plant and equipment ("PP&E") and as at March 31, 2014 this includes certain Ukraine assets and the Tunisian assets.

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<i>(Thousands of US dollars except per unit amounts)</i>	Three months ended March 31,	
	2014	2013
Capital expenditures on property, plant and equipment	\$ 8,221	\$ 3,746
Capital expenditures on exploration and evaluation assets	2,030	5,135
Total capital expenditures	<u>\$ 10,251</u>	<u>\$ 8,881</u>

<i>(Thousands of US dollars)</i>	Three months ended March 31,	
	2014	2013
Expenditure by location		
Ukraine	\$ 7,161	\$ 5,161
Tunisia	1,671	-
Brunei	337	3,719
Romania	1,023	-
Other	59	1
	<u>\$ 10,251</u>	<u>\$ 8,881</u>

During Q1 2014, the Company incurred \$10.2 million of capital expenditures, including in Ukraine the drilling of the M-17 well and completion of the work on the Makeevskoye facility and tie-ins.

The Company drilled the M-17 well in the first quarter of 2014 to a final total depth of 3,445 metres and was logged. The logs indicated pay in the S5 and S6 zones, and resource potential in the R30c and S7 sections. The well was cased and the service rig began completion operations on April 10, 2014.

Subsequent to Q1 2014, the O-11 well was spud on April 4, 2014. The well has a planned total depth of 3,200 metres, targeting the S6 and R30c formations. Drilling time is expected to be 70 days.

Work was substantially completed on the Makeevskoye gas processing facility in Q1 2014. Gas began flowing through the facility on March 6, 2014. Volumes to date have been limited as the M-16 well, which has high flowing pressure, needs to be re-routed to the new facility, and because the additional production has increased the back pressure on the local sales line. The re-routing of the M-16 well should be completed in May 2014.

In Tunisia, the Company has established a drilling and work over campaign for the remainder of 2014. Spending to date has been on well site preparation and minor work over initiatives. The well site for Winstar-12bis has been completed and work on the second location for Winstar-13 is underway. The two wells will be drilled back to back with the drilling rig expected to mobilize to Winstar-12bis in mid-May and spud during the first week of June. Targets are the Lower Hamra and El Atchane formations currently producing in other wells in the field. Each well will take approximately three months, with target total depths of over 3,800 metres. The workover campaign includes the CS-10 and CS- Sil-1 wells using a coiled tubing unit along with EC-4, ECS-1, CS-11 and CS- 8bis using a full work over rig with operations expected to commence early May.

In Romania, amounts were spent on planning for the seismic and drilling campaign including the preparation of an access road to the first location. The two well drilling program is expected to begin in November with both wells being drilled back to back.

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

<i>(Thousands of US dollars)</i>	As at March 31,	As at December 31,
	2014	2013
Ukraine	8,480	10,947
Romania	1,915	887
	<u>\$ 10,395</u>	<u>\$ 11,834</u>

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Debt and Convertible Debt

<i>(Thousands of US dollars)</i>	As at March 31, 2014	As at December 31, 2013
Current liabilities net of current assets	\$ 17,387	\$ 23,132
Long-term debt	10,571	8,030
Net debt	<u>\$ 27,958</u>	<u>\$ 31,162</u>

Dutco

In July 2013, the Company entered in to a credit facility agreement with Dutco Energy Limited (“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 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 of the Company on the Toronto Stock Exchange (“TSX”). Refer to “Covenants” section for details of the associated covenants.

As at March 31, 2014, \$15 million had been drawn on this facility, with interest repayments of \$0.5 million being made in Q1 2014.

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. No discovery well has been announced with repayment of the facility scheduled in July 2014.

EBRD- Tunisia Loan Facility

On November 20, 2013 the Company finalized two loan agreements aggregating \$60 million with EBRD. The Senior Loan is in the amount of USD \$40 million, has a term of seven years, and is available in two tranches of USD \$20 million each. Interest is payable semi-annually at a variable rate equal to 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 instalments 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.

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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. Refer to "Covenants" section for details of the associated covenants.

As at March 31, 2014 the Company has drawn \$10.0 million from Tranche 1, and is presented net of transaction costs of \$0.6 million.

EBRD – Ukraine Loan Facility

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

At March 31, 2014, \$5.8 million of principal and interest was outstanding (December 31, 2013: \$7.6 million). In January 2014, a scheduled payment of \$1.8 million was made.

Covenants

Dutco

As at March 31, 2014, \$15 million is outstanding under the Dutco loan and is due to be repaid during the third quarter of 2014. 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 and taxes payable or recoverable. At March 31, 2014, the ratio was 1.7:1 which includes exclusions of net liabilities of \$ 33.9 million relating to net tax payables, the Dutco loan balance, current portion of the EBRD loan and other liabilities not relating to the current operations as allowed in the Dutco Credit Facility agreement. The company was in compliance with the covenant.

EBRD- Tunisia Loan Facility

As at March 31, 2014, \$10 million is outstanding under the Tunisian EBRD Senior Loan agreement. Both loan agreements as part of the EBRD- Tunisia Loan Facility contain a number of affirmative covenants, including maintaining the specified security, environmental and social compliance, and maintenance of specified financial ratios. The financial ratios include maintaining a debt service coverage ratio of not less than 1.5:1 for both the Company and the Tunisia subsidiary. In addition, the Company and Tunisia subsidiary must maintain a ratio of financial debt to EBITDA of no more than 2.75 times.

At March 31, 2014, the Company's debt service coverage ratio under the terms of the EBRD- Tunisia Loan Facility was calculated to be 110:1. This calculation is based on the trailing twelve months cash flow of the Serinus Consolidated group after adjustments required per the agreement. The Serinus consolidated cash flows are adjusted for interest expense and capital expenditures excluding those expenditures associated with the developments in Brunei and the expenditures in Tunisia for which the EBRD – Tunisia loan facility is intended to finance. This adjusted consolidated cash flow amount was \$19.9 million for the 12 month period ended March 31, 2014. The coverage required is based on the scheduled EBRD- Tunisia Loan Facility principal and interest payments for the same period which was \$ 0.2 million as at March 31, 2014.

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At March 31, 2014, the Tunisian Subsidiary's debt service coverage ratio under the terms of the EBRD- Tunisia Loan Facility was calculated to be 171:1. This calculation is based on the trailing twelve months cash flow of the Tunisian subsidiary after adjustments required per the agreement. The Tunisia subsidiary's cash flows are adjusted for interest expense and capital expenditures excluding those expenditures associated with the expenditures in Tunisia for which the EBRD – Tunisia loan facility is intended to finance. This adjusted consolidated cashflow amount was \$31.2 million for the 12 month period ended March 31, 2014. The coverage required is based on the scheduled EBRD- Tunisia Loan Facility principal and interest payments for the same period which was been estimated to be \$ 0.2 million as at March 31, 2014.

At March 31, 2014 the Company's ratio of financial debt to EBITDA was calculated to be 0.8:1. The financial debt as defined under the agreement includes the accounts payable, income taxes payable, convertible note payable, current portion of long-term debt, other provisions and long term debt which totalled \$62.7 million as at March 31, 2014. The Company's EBITDA for the trailing 12 months is determined as oil and gas revenue, net of royalties less production expenses, general and administrative expenses and transaction costs which totalled \$81.1 million for the 12 month period ending March 31, 2014.

At March 31, 2014 the Tunisian Subsidiary's ratio of financial debt to EBITDA was calculated to be 0.3:1. The financial debt as defined under the agreement includes the accounts payable, income taxes payable, convertible note payable, current portion of long-term debt, intercompany loans and payables, other provisions and long term debt which totalled \$ 10.8 million as at March 31, 2014. The Tunisian Subsidiary's EBITDA for the trailing 12 months is determined as Oil and gas revenue, net of royalties less production expenses, general and administrative expenses and transaction costs which totalled \$37.2 million for the 12 month period ending March 31, 2014.

The Company was in compliance with all associated EBRD- Tunisia Loan Facility covenants above at March 31, 2014.

EBRD – Ukraine Loan Facility

KUB-Gas is required to maintain the following covenants:

- a debt service coverage ratio of not less than 1.3 times, and
- a financial debt to EBITDA of no more than 3 times.

At March 31, 2014, Kub Gas's debt service coverage ratio under the terms of the EBRD- Ukraine Loan Facility was calculated to be 2:1. This calculation is based on the trailing twelve months cash flow of Kub Gas LLC after adjustments required per the agreement. The Kub Gas LLC cash flows are adjusted for interest expense and capital expenditures net of loan proceeds from borrowings. This adjusted Kub Gas LLC's cash flow amount was 222.1 million Ukrainian Hryvnia for the 12 month period ending March 31, 2014. The coverage required is based on the scheduled EBRD- Ukraine Facility principal and interest payments for the same period which was 110.9 million Ukrainian Hryvnia as at March 31, 2014.

At March 31, 2014, Kub Gas's ratio of financial debt to EBITDA was calculated to be 0.1:1. The financial debt as defined under the agreement includes the current and long term loans which totalled 67.0 million Ukrainian Hryvnia as at March 31, 2014. The Company's EBITDA for the trailing 12 months is determined as Oil and gas revenue, net of royalties less production expenses, general and administrative expenses and transaction costs which totalled 517.0 million Ukrainian Hryvnia for the 12 month period ending March 31, 2014.

At March 31, 2014 Kub Gas LLC Company was in compliance with these financial ratios. The total outstanding balance on this facility as at March 31, 2014 was \$5.8 million.

Liquidity and Capital Resources

The Company's liquidity requirements arise primarily from the need to finance exploration and development expenditures and general working capital. The Company's primary sources of liquidity during the periods under review, other than the cash generated from its Ukraine and Tunisian operations, have been debt capital raises, principally the funds from its debenture holders, the KI loan, the EBRD loans and the Dutco loan. Outside of Ukraine and Tunisia, the Company's projects are currently in the exploration phase and accordingly, the Company is not forecasting revenue from those operations for the immediate future. Operating cash flow from Ukraine and Tunisia plus the EBRD debt facilities and the Dutco facility are sufficient to completely support the intensive capital investment program of the Company and settle any outstanding working capital deficiency.

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KUB-Gas generates positive operating cash flow, which is expected to be sufficient to support the significant capital investment program in Ukraine and settle any outstanding working capital and the Ukraine EBRD loan.

The Tunisian assets generate positive operating cash flow and with the availability of the EBRD loan is expected to have sufficient funding for its capital program.

To date, the acquisition and development of the Company's assets have been financed primarily through the issuance of new equity, which has raised approximately \$304.5 million in the aggregate since the formation of the Company, and the proceeds of the debentures, which have totalled \$55.5 million in aggregate.

As is the case with many exploration companies, the Company is exposed to the risk of not being able to meet all the financial obligations as they come due or not being able to liquidate assets at a reasonable price and on a timely basis. The Company has successfully undertaken and plans to continue to undertake various measures to mitigate this risk. The Company monitors its liquidity position regularly to assess whether it has funds necessary to complete planned exploration commitments and programs on its petroleum and natural gas properties or that viable options are available to fund such commitments from new equity or debt issuances or alternative sources of financing such as farm-out agreements.

Economic factors affecting the Company's cash flow required for operations and for investments include fluctuations in foreign currency exchange rates. Fluctuations in foreign currency exchange rates between United States dollars and other currencies, resulted in a foreign exchange loss of \$3.6 million for the three months ended March 31, 2014.

At March 31, 2014, the Company has debt consisting of the Dutco loan which has fixed interest rates and two loans with the EBRD which have variable rates, but with the option to convert to a fixed rate. At March 31, 2014, approximately 50% of the debt is affected by movements in interest rates.

Since commencement of activities in the international oil and gas business, the Company has relied on regular injections of new equity to fund its operations and capital expenditure programs as well as farm-out agreements under which a portion of the historical costs incurred have been returned to the Company and a portion of the future capital commitments are assumed by the new partner. The Company has successfully raised new equity when required in the past, and intends to raise new equity when required in the future.

The Dutco loan is due to be repaid early in the third quarter of 2014.

On an ongoing basis, the Company may utilize various sources of funding to finance its capital expenditure program: internally generated funds, farm-out arrangements, debt where appropriate, new equity issuances if available on favourable terms, and asset sales. Future borrowing requirements will be assessed on an ongoing basis. When financing corporate acquisitions, the Company may also assume certain future liabilities.

Dividends can be paid out of the Ukrainian subsidiary, KUB-Gas and the Tunisian subsidiary providing the terms and conditions of the EBRD loan agreement are met. Certain financial and reserve coverage covenants are in place at both the Tunisian subsidiary level and the Serinus corporate level.

As an exploration and development company, there are inherent liquidity risks, including the possibility that internally generated cash flows may not be sufficient to fund the exploration program, 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.

Equity and debt funds raised by the Company are transferred to operating subsidiaries to fund operating activities and capital expenditures when required; there have been no legal or economic restrictions experienced by the Company to date for such cash transfers, other than, the terms and conditions of the EBRD loan agreement had restricted the ability of KUB-Gas to pay dividends or repay loans or loan money to the Company. In Q1 2014, the working capital covenant relating to the EBRD Ukraine loan was waived.

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The Company is also subject to the financial covenants attached to the Dutco debt facility, which include a current ratio test.

As the operator of the Block 9 joint venture in Syria, the Company has applied to the Ministry of Petroleum and Mineral Resources of its declaration of force majeure and are complying with sanctions placed by the governments of the United States, Canada, the Arab League and the European Union on oil and gas investment in Syria.

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

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

During the period covered by this report, the Company did not issue guarantees exceeding 10% of the Company's equity, except for the guarantee of the loan drawn by KUB-Gas, as discussed under the heading "EBRD Loan Facility" above. Details of all debt outstanding, including pledges, are disclosed in the notes to the condensed consolidated interim financial statements as at March 31, 2014.

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

Working Capital

<i>(Thousands of US dollars)</i>	As at March 31, 2014	As at December 31, 2013
Current assets	\$ 36,799	\$ 37,039
Current liabilities	54,186	60,171
Working capital	<u>\$ (17,387)</u>	<u>\$ (23,132)</u>

The Company has working capital deficit of \$17.3 million as at March 31, 2014 (December 31, 2013: \$23.1 million). The Company believes that funds from operations in the future or equity and further debt financing can be used to settle the working capital deficiency.

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 three months ended March 31, 2014, the fees totaled \$0.2 million (Q1 2013 - \$0.2 million). At March 31, 2014, nil was owed to Nemmoco (December 31 2013 - \$23 thousand).

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 three months ended March 31, 2014, these fees totaled \$3 thousand (Q1 2013 - \$3 thousand). At March 31, 2014, Loon Energy owed \$3 thousand (December 31, 2013 - nil) 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 March 31, 2014, Loon Energy owed nil (December 31, 2013 - nil) 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

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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.

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, Loon Peru Limited, which guaranteed the performance of Loon Peru Limited of its obligations under the license contract. These obligations were fulfilled and Loon Peru elected not to proceed in to the second exploration period and the license contract was relinquished. While the Loon Guarantee has yet to be released, the maximum liability that could arise under the Loon Guarantee is based on the first exploration phase where the work commitment has been fulfilled. Consequently the Company does not anticipate any material exposure under the Loon Guarantee.

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

Commitments

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

(Thousands of US dollars)

	<u>Within 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>+5 Years</u>	<u>Total</u>
Office Rental	\$ 736	\$ 823	\$ 1,044	\$ 1,092	\$ 3,695
Dutco loan	15,000	-	-	-	15,000
EBRD loan-Ukraine	3,927	1,888	-	-	5,815
EBRD loan-Tunisa	722	3,126	3,126	2,431	9,405
Total contractual obligations	<u>\$ 20,385</u>	<u>\$ 5,837</u>	<u>\$ 4,170</u>	<u>\$ 3,523</u>	<u>\$ 33,915</u>

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.

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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 March 31, 2014 cumulative liquid hydrocarbon sales net of royalties and shrinkage was 4.8 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. However, the Company has signed a lease extension to November 30, 2020.

Dividends

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

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Selected Quarterly Data (\$'000's, except per share amounts)

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

<i>(Thousands of US dollars except per unit amounts and volumes)</i>	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Oil and gas revenue	\$ 35,863	\$ 43,700	\$ 45,394	\$ 28,929
Netback (\$/boe)	\$ 38.27	\$ 43.18	\$ 56.97	\$ 37.80
Earnings (loss) for the period				
Common shareholders	\$ 1,657	\$ (79,740)	\$ 8,147	\$ 829
Non-controlling interest	\$ 1,077	\$ 2,837	\$ 3,815	\$ 2,352
Per share - basic and diluted attributable to common shareholders	\$ 0.02	\$ (1.01)	\$ 0.10	\$ 0.02
Average daily production (boe) (gross)	6,351	6,631	6,318	4,541
Average daily production (boe) (net to Serinus)	4,849	5,079	4,892	3,179

<i>(Thousands of US dollars except per unit amounts and volumes)</i>	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Oil and gas revenue	\$ 28,709	\$ 27,338	\$ 25,717	\$ 24,713
Netback (\$/boe)	\$ 40.08	\$ 49.20	\$ 48.30	\$ 46.86
Earnings (loss) for the period				
Common shareholders	\$ 2,082	\$ (917)	\$ (85,089)	\$ (880)
Non-controlling interest	\$ 2,152	\$ 1,982	\$ 1,741	\$ 2,155
Per share - basic and diluted attributable to common shareholders	\$ 0.04	\$ (0.02)	\$ (1.87)	\$ (0.02)
Average daily production (boe) (gross)	4,500	4,194	3,911	3,761
Average daily production (boe) (net to Serinus)	3,151	2,937	2,738	2,633

During the period from Q2 2012 to Q4 2012, the Company's oil and gas revenue and average daily production was entirely from the Ukrainian operations. During this period, the operations had a steady increase through capital expenditure investments that increased production by 12%. In Q3 2012, the net income was negatively impacted by an impairment charge recorded on Block M in Brunei. The steady increase in production and oil and gas revenues continued into Q1 and Q2 of 2013, again driven by the drilling success in Ukraine. At the end of Q2 2013, the Company completed the Winstar acquisition which resulted in substantial increases to oil and gas revenue, and average daily production. In Q4 2013, the earnings were negatively impacted by an impairment charge of \$83.0 million related to Brunei Block L.

Share Data

The Company is authorized to issue an unlimited number of common shares of which 78,629,941 common shares and 7,293,400 options with a USD exercise price and 9,000 options with a Canadian Dollar ("CAD") exercise price to purchase common shares were outstanding as at March 31, 2014.

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

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Summary of common shares outstanding:

<i>(Thousands of US dollars)</i>	Number of Shares	Carrying Amount
Balance, December 31, 2013	78,611,441	\$ 344,403
Issued on exercise of stock options	18,500	76
Balance, March 31, 2014	<u>78,629,941</u>	<u>\$ 344,479</u>

Summary of options outstanding:

The following table summarizes information about common share purchase options outstanding at March 31, 2014:

	Number of Options	Weighted average exercise price per option (US \$)
Balance, December 31, 2013	7,089,900	\$ 4.69
Granted	248,000	3.54
Expired	(18,500)	2.85
Forfeited	(26,000)	3.97
Balance, March 31, 2014	<u>7,293,400</u>	<u>\$ 4.66</u>

In Q1 2014, the Company granted 248,000 USD share purchase options at a weighted price of \$3.54 per share to certain employees of Serinus. A further 9,000 options were granted at a weighted average price of CAD\$3.22. These share purchase options have a five-year term and vested one-third immediately, and one-third on each of the first and second anniversary of the grant date.

The complete list of shares and options owned by Serinus directors and executive officers is presented in the Management's Discussion and Analysis for the year ended December 31, 2013. As at the date of issuing this report, management is only aware of two shareholders holding more than 5% of the common shares of the company. KI owns 50.8% and Pala Holdings owns 7.5% of the common shares issued at March 31, 2014.

Risk Management

The Company and its business, future prospects, financial condition and operations are impacted by risks that are categorized as financial and market risks, operational risks and safety, environment and regulatory risks. The Company takes a proactive approach to identifying and mitigating risks, but occasionally unforeseen issues arise and must be handled urgently.

Financial and Market Risk

Financial and market risks include interest rate risk, credit risk, currency, and commodity price risks.

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 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 \$0.4 million based on the debt balance outstanding at March 31, 2014. Restricted cash is in instruments that are

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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.

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 within 30 days. Oil sold in Tunisia is with reputable parties and collection is prompt based on the individual terms with the parties. At March 31, 2014, the Company had \$1.9 million (December 31, 2013- \$2.1 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 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.

Currency risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar, Polish zloty, Ukraine hryvnia, Romanian Leu, Tunisian Dinar, the Euro and the United States dollar. At March 31, 2014 the Company's primary currency exposure related to Canadian dollar ("CAD"), Ukraine hryvnia ("UAH"), Tunisian Dinar ("TD"), and Romanian Leu ("LEU") balances. The following table summarizes the Company's foreign currency exchange risk for each of the currencies indicated:

<i>(Thousands)</i>	March 31, 2014				December 31, 2013			
	CAD	UAH	TD	LEU	CAD	UAH	TD	LEU
Cash and cash equivalents	101	7,366	14	24	112	22,027	446	947
Accounts receivable	122	23,270	6,472	273	103	22,640	16,793	120
Prepaid expenses	276	35,523	513	144	318	46,479	97	-
Accounts payable and accrued liabilities	(1,105)	(50,638)	(2,199)	(84)	(879)	(66,266)	(17,261)	(498)
Net foreign exchange exposure	<u>(606)</u>	<u>15,521</u>	<u>4,800</u>	<u>357</u>	<u>(346)</u>	<u>24,880</u>	<u>75</u>	<u>569</u>
US \$ equivalent at period end exchange rate	<u>\$ (548)</u>	<u>\$ 1,358</u>	<u>\$ 2,994</u>	<u>\$111</u>	<u>\$(348)</u>	<u>\$ 3,001</u>	<u>\$ 46</u>	<u>\$177</u>

For the three months ended March 31, 2014, 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 \$55 thousand (2013 - \$28,000).

If the Tunisian Dinar 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 \$0.2 million.

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Earnings are not impacted by fluctuations in the Hryvnia as translation gains and losses are included in accumulated other comprehensive income (loss) as it relates to the balances in UAH. Due to the deterioration of the Hryvnia versus the US dollar a loss of \$18.9 million was recorded. An appreciation in the exchange would have the opposite effect.

Earnings are impacted by fluctuations in the Hryvnia for US dollar balances outstanding within the Ukraine subsidiaries that have the Hryvnia as their functional currency.

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

<i>(Thousands)</i>	March 31,	December
	2014	31, 2013
	USD	USD
Cash and cash equivalents	1,567	66
Loan with parent	(1,286)	(4,870)
Loan with third parties	(5,815)	(7,666)
Accounts payable and accrued liabilities	(3,072)	(2,616)
Net foreign exchange exposure	(8,606)	(15,086)

A 10% weakening of the Hryvnia compared to the US dollar and all other variables were held constant, would result in a decrease in the after tax earnings by approximately \$0.7 million.

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. However, as an exploration and development company without sufficient internally generated cash flow to fund the exploration program, 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.

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. Natural gas in the Ukraine is impacted by the availability of imported natural gas from Russia and the price set by exporters in Russia 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.

Operational Risk

The Company's ability to operate, generate cash flows, complete projects and find reserves is dependent on general market and business conditions, the ability to obtain and maintain cost effective financing to meet the Company's commitments and execute on planned programmes, environmental and regulatory matters in multiple jurisdictions, unexpected cost increases, availability of equipment, supplies and labour, availability of pipeline capacity and reservoir quality. Failure to acquire or find additional reserves will, at minimum, erode the Company's existing reserves as these reserves are depleted through ongoing production, and may negatively impact the Company's ability to grow its asset base in the future.

To mitigate these risks, the Company evaluates projects for financial, geological and engineering risk and mitigation plans are developed, including a comprehensive insurance program.

Safety, Environmental and Regulatory Risk

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The Company is engaged in relatively high risk activities. The Company is committed to both safety in operations and to preserving and protecting the environment. The Company believes it fully complies with or exceeds all government regulations and industry standards in the countries of operation; however operations are subject to regulation and intervention by governments that can affect exploration, production and abandonment of fields and licenses. Rights and licenses can be cancelled, may expire or be expropriated and regulations can change. Certain licenses have restrictions which may not be removed on a timely basis.

Political Risk

Certain areas in which the Company operates are politically and economically unstable and the assets and operations may be affected by changes in government policy, social instability or other political or economic developments outside the control of the Company. To date the current instability in the Ukraine has not had any impact on the Company's operations. However, whilst management believes it is taking appropriate measures to support the sustainability of KUBGas' 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.

Contingency plans are in place to ensure a timely response to a safety or environmental event and a security program is in place to protect the Company's assets and staff.

Proceedings before courts, arbitration or public administration

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

2014 Outlook

In 2014, the Company intends to increase overall corporate production by 30% to 35% by the end of the year. To achieve this level of production, the Company expects its 2014 capital expenditure budget will exceed USD \$55 million. Under the current work plan, this level of capital expenditures will allow Serinus to drill a minimum of 8 gross new wells in Ukraine, Tunisia and Romania. Capital expenditures in Tunisia will be funded through the Company's financing arrangements with the European Bank of Reconstruction and Development ("EBRD"). Capital expenditures in Ukraine will be funded by Ukraine cash flow and capital expenditures in Romania will be funded by corporate cash flow. Given the change in gas price, it is possible that the drilling program in Ukraine may be constrained.

The Company does not prepare and publish financial forecast results for the current or future financial years.

Forward-Looking Statements

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

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

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

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- treatment under governmental regulatory regimes; and
- Commodity prices.

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

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

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

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

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

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

Critical Accounting Estimates

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. The list of critical accounting estimates was included in the Management, Discussion and Analysis for the year ended December 31, 2013 and those listed critical accounting estimates apply to the three months ended March 31, 2014.

Non-IFRS Measures

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

Serinus calculates "funds from operations", "netback", "net debt", "EBITDA" and "working capital" as presented earlier in this document.

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Future Changes in Accounting Policies

(i) New and Amended Standards Adopted

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 did not impact the Company's consolidated financial statements, but may impact the related disclosures in the future.

(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. The following standard is effective for annual periods beginning on or after January 1, 2014:

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.

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

Disclosure Controls and Procedures, and Internal Controls over Financial Reporting

The preparation of this MD&A is supported by a set of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as at March 31, 2014.

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

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

- (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;
- (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and
- (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements.

The Company's Chief Executive Officer and Chief Financial Officer of the Company have designed DC&P and ICFR, or caused them to be designed under their supervision, to provide reasonable assurance that all material information required to be disclosed by Serinus in its annual filings and interim filings are recorded, processed, summarized and reported within

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the time periods specified in applicable securities legislation, and to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

As permitted the Company's evaluation limited the scope of design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days before the last day of the period covered by this interim filing, the Winstar Acquisition.

Summary financial information of Winstar as at March 31, 2014 includes:

- Current assets of \$20.6 million
- Non-current assets of \$165.2 million
- Current liabilities of \$10.3 million
- Non-current liabilities of \$66.7million

Summary financial information of Winstar for three months ended March 31, 2014 includes:

- Revenue of \$12.4 million
- Net earnings of \$4.6 million

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

There have been no changes to the Company's internal controls over financial reporting since December 31, 2013.

Approval

The Company's Board of Directors has approved the disclosure contained within this MD&A.

Abbreviations

The following abbreviations may be used throughout this MD&A document

Crude Oil and Natural Gas Liquids		Natural Gas	
Bbl	Barrel	Mcf	thousand cubic feet
bbl/d	barrels per day	MMcf	million cubic feet
Mbbl	thousands of barrels	Bcf	billion cubic feet
boe/d	barrels of oil equivalent per day	Mcf/d	thousand cubic feet per day
Boe	barrels of oil equivalent of natural gas and crude oil, unless otherwise indicated	MMcf/d	million cubic feet per day
		Mcfe	thousand cubic feet equivalent
Mboe	thousand boe	Tcf	trillion cubic feet
NGL	natural gas liquids	BcfE	billion cubic feet equivalent

Production information is commonly reported in units of barrel of oil equivalent ("boe" or "BOE") or in units of natural gas equivalent ("Mcfe"). However, BOEs or Mcfe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl, or an Mcfe conversion ratio of 1 bbl:6 Mcf, is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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Additional Information

Additional information regarding Serinus and its business and operations is available at www.sedar.com. Information is also accessible on the Company's website at www.serinusenergy.com. Copies of the information can also be obtained by contacting the Company at Serinus Energy Inc, 1170, 700 – 4th Avenue S.W., Calgary, Alberta T2P 3J4 (Phone: +1 403 264-8877) or by e-mail at ryaniw@serinusenergy.com.