

# SERINUS ENERGY INC.

## Management's Discussion and Analysis

For the three and nine months ended September 30, 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 September 30, 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" or "USD") which is the reporting currency of the Company. The consolidated financial statements for September 30, 2014 are prepared 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 November 12, 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".*

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

**Financial Highlights**

---

- During Q3 2014, net production levels (being the Company's production from Tunisia and its net 70% interest in Ukraine) averaged 5,640 boe/d, compared to 4,892 boe/d for Q3 2013, an increase of 15%. The increase reflects an increase in Ukraine production of 1,143 boe/d as a result of capital programs during 2013 and 2014. This was offset by a decrease in Tunisia production of 395 boe/d as a result of natural declines and operational downtime due to Electrical Submersible Pump ("ESP") failures that require replacement. Production for Q3 2014 was weighted 83% (Q3 2013: 74%) natural gas with the remainder consisting of oil and condensate production.
- Average natural gas prices in Ukraine were lower in Q3 2014 at \$10.17 per Mcf compared to \$11.32 per Mcf in the comparable period of 2013. Effective January 1, 2014 natural gas prices decreased due to incentives granted by Russia to Ukraine on their imported gas prices and deterioration in the hryvnia ("UAH") as compared to the US Dollar. Since April 1, 2014 the hryvnia price at which the Company's natural gas is sold is higher than prices realized during 2013, however, a significant deterioration in the exchange rate has resulted in lower USD natural gas prices compared to 2013. The average effective market exchange rates for the hryvnia for the three and nine months ended September 30, 2014 were 12.53 UAH/USD and 11.32 UAH/USD, respectively, as compared to 8.15 UAH/USD and 8.14 UAH/USD in the comparable periods of 2013. Natural gas prices realized in Tunisia were \$14.73 per Mcf and crude oil sales in Tunisia realized an average price of \$98.06 per bbl for the quarter.
- The netback for Q3 2014 overall for the Company was \$34.19 per boe, compared to \$56.97 in Q3 2013. The decrease is attributable to a lower netback in Ukraine of \$30.91 as compared to Q3 2013 of \$50.29, and in Tunisia of \$53.85 as compared to Q3 2013 of \$77.27. The lower netback in Ukraine is driven by higher royalties and lower commodity prices, partially offset by lower operating costs due to deterioration in the hryvnia. Royalties on natural gas in Ukraine increased from 28% to 55%, effective August 1, 2014. The lower netback in Tunisia is driven by lower commodity prices and higher operating costs due to an increase in staff related costs.
- Funds generated from operations were \$19.2 million for the three months ended September 30, 2014, as compared to \$21.6 million for the comparative period of 2013. In Ukraine, higher royalties and lower realized prices, which were partially offset by higher production and lower operating costs, contributed to the decrease in funds from operations. In Tunisia, the contributing factors were lower production, lower commodity prices and higher operating costs.
- Funds generated from operations were \$54.9 million for the nine months ended September 30, 2014, compared to \$40.4 million for the comparative period of 2013. The increase in funds from operations compared to 2013 is primarily attributable to the acquisition of Winstar and increased production in Ukraine.
- Revenue, net of royalties, for the three months ended September 30, 2014 decreased to \$30.1 million compared to \$35.7 million in the comparative period in 2013. For the nine months ended September 30, 2014, revenue net of royalties increased to \$91.6 million from \$78.3 million in the comparative period in 2013. The decrease in the three month period is attributable to lower commodity prices and decreased oil production in Tunisia. The increase for the nine month period is attributable to the Winstar acquisition and increased Ukraine production.
- Cash payments were successfully made out of Ukraine in the first nine months of 2014. Intercompany loans of \$3.6 million were repaid and dividends of \$22.5 million were paid from cash generated from Ukrainian operations. Since acquisition, total dividends of \$62.5 million have been paid out by KUB-Gas LLC. Effective September 23, 2014, the National Bank of Ukraine issued a resolution prohibiting foreign exchange transactions associated with the payment of dividends to foreign entities. This resolution is in place until December 2, 2014.
- As of September 30, 2014, the Company has fully repaid its outstanding loan of \$15 million with Dutco.
- During Q3 2014, the Company's developmental field operations in Ukraine were on hold pending improvement in the security situation. Production continued, but drilling, workover, stimulation and construction activities ceased. On October 2, 2014, the Company announced that the security situation had improved in and around the Makeevskoye, Olgovskoye and North Makeevskoye licenses and the Company resumed drilling activity in the Makeevskoye license with the spud of the M-22 well.
- In Tunisia, the Winstar-12bis ("WIN-12bis") well was spud on July 17, 2014 and has reached planned total depth of 3,855 metres. Following rig release, WIN-12bis will be tied into the flowline and put on an extended production test. Once drilling of WIN-12bis is complete, the rig will move to the Winstar-13 drilling location. In the Ech Chouech permit, the EC-4 and ECS-1 wells were worked over, perforated and fractured. In the Chouech Es Saida permit, CS-8 bis and CS-11 wells were worked over to replace the pumps.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

- In Romania, two exploration wells, Moftinu-1001 and 1002bis, will be drilled to planned depths of 1,800-2,000 metres. The two wells are expected to take approximately 45 days to drill and case, including time for rig move between the two locations. The Moftinu-1001 well is expected to be spud in November.

## **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 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 Resources Limited ("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 KUB GAS 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 reports 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%.

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 interests 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 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, change of the government and heads of key governing bodies. The crisis further escalated and fighting continued in the eastern part of Ukraine. The United States and European Union declared sanctions against selected Russian individuals and companies at various stages of the conflict and international pressure on Russia to de-escalate the crisis further increased when Malaysian Airlines flight MH17 was shot down over the separatist-controlled territory on July 17, killing all 298 people on board. Tougher sanctions against Russia were implemented as a result of these developments. On September 5, 2014 and September 22, 2014, Ukraine and pro-Russian rebels signed ceasefire agreements. Since the truce agreements have been made, the level of violence has been lower, but sporadic fighting continues, particularly in the area surrounding the Donetsk airport in Eastern Ukraine.

Recent events lead to a 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. The Ukrainian interim government 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. On May 25 Mr. Petro Poroshenko was elected President and sworn into office on June 7. On

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

June 27 he signed an agreement with the European Union, reducing import tariffs among the signatory countries and committing Ukraine to an ambitious programme of political and economic reform. In the long term, the agreement is expected to boost the Ukrainian economy and improve Ukraine's business climate. However, the country will be required to introduce wide-ranging changes that will initially cause disruption as Ukrainian businesses struggle to make the change.

On August 1, 2014, President Petro Poroshenko signed Law No.4309A that increased royalties on natural gas and condensate production to 55% and 45% respectively, from 28% and 42%, effective August 1, 2014 until January 1, 2015. The new law has a provision for a "lowering coefficient" on new wells drilled after August 1, 2014, which reduces royalties on new wells to 55% of nominal rates (i.e. the effective rate of new wells is 30.25% for gas and 24.75% for condensate) for a period of two years.

On September 22, 2014, the National Bank of Ukraine announced Resolution No.591, which prohibits several types of foreign exchange transactions, including the ability of KUB-Gas to pay dividends to shareholders. These restrictions are in force from September 23, 2014 until December 2, 2014.

Overall, there has been limited impact on the Company's Ukrainian operations, however, in the second and third quarter of 2014, the Company put developmental field operations in Ukraine on hold pending improvement in the security situation. Production continued, but drilling, workover, stimulation and construction activities ceased. On October 2, 2014, the Company announced that the security situation had improved in and around the Makeevskoye, Olgovskoye and North Makeevskoye licenses and the Company resumed drilling activity in the Makeevskoye license with the spud of the M-22 well.

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.

**UKRAINE**

As at September 30, 2014 KUB-Gas owns the following licenses in Ukraine:

<b>Production license</b>	<b>Issue date</b>	<b>Expiry date</b>
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
<b>Exploration license</b>		
North Makeevskoye field	29 December 2010	20 December 2015

The Company may produce gas and gas condensate under the exploration licences 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.

The Company began to generate revenues with its acquisition of KUB-Gas in June 2010, and since that time has generated \$264.2 million of revenue, net of royalties, in aggregate from these assets, of which \$185.0 million is net to the 70% interest held by Serinus.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

**TUNISIA**

Effective June 24, 2013, the Company acquired Winstar, which owned 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 September 30, 2014, the Company has the following interests in the concessions:

<b>Concession</b>	<b>Working interest</b>	<b>Expiry date</b>
Chouech Es Saida	100%	December 2027
Ech Chouech	100%	September 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 September 30, 2014, cumulatively 4.9 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, 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 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 cash flows 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 September 30, 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 square 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.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

**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 September 30, 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. This asset is not currently producing and has a future abandonment liability associated with it of \$1.6 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 early 2015.

**Non-Controlling interest**

---

The Company controls KUB Holdings and is required under 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 unless specifically noted otherwise. The tables below summarize the three and nine months ended September 30, 2014 results reported by the Company in accordance with IFRS, including 100% of KUB Holdings and KUB-Gas as described above, then remove the 30% share allocable to the non-controlling interest to reflect the net results of operations attributable to the Company's 70% economic interest.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

	Three months ended Sept 30, 2014			Nine months ended Sept 30, 2014		
	As reported	Allocated to non-controlling	Net to Serinus	As reported	Allocated to non-controlling	Net to Serinus
Total daily production (boe)	7,556	(1,916)	5,640	6,817	(1,663)	5,154
Oil and gas revenue	\$ 46,407	\$ (10,836)	\$ 35,571	\$ 123,905	\$ (26,681)	\$ 97,224
Royalties	(16,326)	4,492	(11,834)	(32,334)	8,313	(24,021)
Oil and gas revenues, net of royalties	30,081	(6,344)	23,737	91,571	(18,368)	73,203
Production expenses	(6,309)	894	(5,415)	(19,548)	2,797	(16,751)
General and administrative	(3,403)	19	(3,384)	(7,809)	19	(7,790)
Transaction costs	59	-	59	(1,441)	-	(1,441)
Stock-based compensation	(685)	-	(685)	(2,402)	-	(2,402)
Gain on disposition of asset	19	11	30	126	11	137
Depletion and depreciation	(8,141)	1,576	(6,565)	(24,292)	4,597	(19,695)
Impairment of exploration and evaluation assets	-	-	-	(337)	-	(337)
Interest and other income	1,990	(261)	1,729	2,338	(334)	2,004
Unrealized loss on investments	(77)	-	(77)	(8)	-	(8)
Interest expense and accretion	(696)	520	(176)	(3,731)	1,778	(1,953)
Foreign exchange gain (loss)	(2,308)	10	(2,298)	(6,825)	319	(6,506)
Earnings before taxes	10,530	(3,575)	6,955	27,642	(9,181)	18,461
Current tax expense	(1,646)	803	(843)	(6,147)	2,080	(4,067)
Deferred tax expense	(2,333)	14	(2,319)	(3,477)	(123)	(3,600)
Earnings for the period	\$ 6,551	\$ (2,758)	\$ 3,793	\$ 18,018	\$ (7,224)	\$ 10,794
Funds from operations	\$ 19,181	\$ (4,870)	\$ 14,311	\$ 54,887	\$ (13,483)	\$ 41,404

### **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 from operations is calculated based on cash flow from operating activities before changes in non-cash working capital.

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

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Cash flow from operations	\$ 29,373	\$ 21,942	\$ 62,900	\$ 41,166
Changes in non-cash working capital	(10,192)	(382)	(8,013)	(717)
Funds from operations	\$ 19,181	\$ 21,560	\$ 54,887	\$ 40,449
Funds from operations per share	\$ 0.24	\$ 0.27	\$ 0.70	\$ 0.68

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 decreased by \$2.4 million for the three month period ended September 30, 2014, to \$19.2 million, compared to \$21.6 million of the comparative period. In Ukraine, higher royalties and lower realized prices, which were partially offset by higher production and lower operating costs, contributed to the decrease in funds from operations. In Tunisia, the contributing factors were lower production, lower commodity prices and higher operating costs.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

Funds from operations increased by \$14.5 million for the nine month period ended September 30, 2014 to \$54.9 million, compared to \$40.4 million of the comparative year. The increase in funds from operations compared to 2013 is primarily attributable to the acquisition of Winstar and increased production in Ukraine.

**Production**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Average Daily Production (net to Serinus)				
Crude Oil (bbl/d)	876	1,165	960	393
Natural gas (Mcf/d)	28,071	21,738	24,594	19,382
Natural gas liquids (bbl/d)	85	104	95	123
Total boe/d	<u>5,640</u>	<u>4,892</u>	<u>5,154</u>	<u>3,746</u>
Production by Location (boe/d)				
Ukraine	4,470	3,327	3,879	3,218
Tunisia	1,170	1,565	1,275	528
Total boe/d	<u>5,640</u>	<u>4,892</u>	<u>5,154</u>	<u>3,746</u>

Production volumes increased by 15% in the third quarter to 5,640 boe/d, net to Serinus, compared to 4,892 boe/d in the comparable period of 2013. The increase in Q3 2014 reflects an increase of 34% in production volumes from Ukraine offset by a decrease of 25% from Tunisia.

Production volumes increased year over year by 38% from 3,746 boe/d to 5,154 boe/d, net to Serinus. The increase in 2014 reflects Tunisian production of 1,275 boe/d and an increase of 21% in production volumes from Ukraine.

**UKRAINE**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Average Daily Production (net to Serinus)				
Natural gas (Mcf/d)	26,310	19,338	22,706	18,576
Natural gas liquids (bbl/d)	85	104	95	123
Total boe/d	<u>4,470</u>	<u>3,327</u>	<u>3,879</u>	<u>3,218</u>

In Ukraine, production volumes, net to Serinus, increased by 34% in the third quarter of 2014, to 4,470 boe/d, compared to 3,327 boe/d in the comparable period of 2013. The increase is a result of the successful drilling campaign in 2013 and first half of 2014, which included the M-16 and M-17 wells.

A similar trend is noted on a year to date basis.

Gas began flowing through the new treatment facility at Makeevskoye on March 6, 2014. This new facility increased the throughput capacity, from approximately 30 MMcf/d to 68 MMcf/d, for the Olgovskoye and Makeevskoye fields. This work was completed by the end of the first quarter, and production from the M16 has been re-routed to the facility from the end of April.

**TUNISIA**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Average Daily Production (net to Serinus)				
Crude Oil (bbl/d)	876	1,165	960	393
Natural gas (Mcf/d)	1,761	2,398	1,888	808
Total boe/d	<u>1,170</u>	<u>1,565</u>	<u>1,275</u>	<u>528</u>



**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

In Tunisia, production volumes decreased by 25% in the third quarter of 2014 to 1,170 boe/d, compared to 1,565 boe/d in the comparable period of 2013. Production is predominantly from the Chouech Es Saida and Sabria fields, which accounts for 90% of the production in Tunisia. The decline in production is attributable to the Chouech Es Saida field, which has seen numerous Electrical Submersible Pump ("ESP") failures throughout 2014. In the first half of 2014, a significant amount of time was spent on the procurement and delivery of new pumps. In the third quarter of 2014, CS-8 bis and CS-11 wells were worked over and the pumps were replaced. The remainder of the decrease in production is due to natural declines of well production.

On a year-to-date basis, the increase in production in 2014 reflects nine months of operations since the June 2013 acquisition of Winstar. The Company acquired its Tunisian assets on June 24, 2013 as part of the acquisition of Winstar, therefore the 2013 operating results from the Winstar assets have been included in the consolidated financial statements of Serinus from June 24, 2013 onwards.

**Oil and natural gas sales**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Crude oil	\$ 7,902	\$ 12,153	\$ 27,519	\$ 12,153
Natural gas	37,549	31,959	93,409	86,448
Natural gas liquids	956	1,282	2,977	4,431
	<u>\$ 46,407</u>	<u>\$ 45,394</u>	<u>\$ 123,905</u>	<u>\$ 103,032</u>
<b>Ukraine</b>				
Natural gas (\$/Mcf)	\$ 10.17	\$ 11.32	\$ 9.71	\$ 11.50
Natural gas liquids (\$/bbl)	84.98	93.52	80.09	92.75
Average price (\$/boe)	<u>\$ 61.47</u>	<u>\$ 68.73</u>	<u>\$ 58.78</u>	<u>\$ 69.87</u>
<b>Tunisia (a)</b>				
Crude Oil(\$/bbl)	\$ 98.06	\$ 113.39	\$ 105.01	\$ 113.39
Natural gas (\$/Mcf)	14.73	14.43	14.46	14.43
Average price (\$/boe)	<u>\$ 95.63</u>	<u>\$ 106.56</u>	<u>\$ 100.50</u>	<u>\$ 106.56</u>

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

Oil and gas revenue increased by 2% in Q3 2014 compared to Q3 2013, reflecting increased production levels which were partially offset by lower commodity prices. Similar trends are noted on a year to date basis, with revenues increasing by 20%.

In Ukraine, revenues totalled \$36.1 million for Q3 2014, compared to \$30.1 million in Q3 2013. The 20% increase is attributable to a 34% increase in production volumes offset by an 11% decrease in the average commodity price.

Ukraine natural gas commodity prices were lower in Q3 2014 compared to the same period in 2013, with a realized natural gas price of \$10.17 per Mcf, compared to \$11.32 per Mcf for Q3 2013. The domestic gas price within Ukraine is set by the National Electricity Regulatory Commission ("NERC") of Ukraine by reference to the Russian imported gas price. Gas sold in Ukraine is paid in hryvnia, making its realized price in USD also subject to exchange rate risk.

A similar trend is noted on a year to date basis with a realized natural gas price of \$9.71 per Mcf, compared to \$11.50 per Mcf in 2013.

Effective January 1, 2014 natural gas prices decreased in Ukraine due to incentives granted by Russia to Ukraine on their imported gas prices and the deterioration of the Ukraine hryvnia versus in particular the US Dollar. This resulted in a realised price for Q1 2014 of \$8.55 per Mcf. Effective April 1, 2014 the discounts on Russian gas expired, increasing the realised price to \$10.23 per Mcf for Q2 2014 and \$10.17 per Mcf for Q3 2014. Exchange rates deteriorated during the third quarter with the average effective exchange rate for the hryvnia for the three and nine months ended September 30, 2014

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

being 12.53 UAH/USD and 11.32 UAH/USD, respectively, as compared to 8.15 UAH/USD and 8.14 UAH/USD in the comparable periods of 2013.

In Ukraine, the majority of the Company's production is marketed and sold to wholesalers, who then sell to industrial users. The actual price received by KUB-Gas is approximately 4-5% less for the profit margin of the wholesalers.

Oil sales for Tunisia included volumes loaded onto tankers, which generally occur every two months, as well as the change in the net realizable value of oil inventory. During the first nine months of 2014, the Company had six tanker liftings, in February, March, April, June, July and September. The Company had a tanker lifting near the end of September, resulting in the Company selling more volumes than it produced. The Company's overlift position was approximately 11,649 bbls at September 30, 2014. When applicable, inventory is recorded at net realisable value. An overlift amount is recognised in accounts payable, as at September 30, 2014, the overlift liability was \$1.1 million.

In Tunisia, revenues totalled \$10.3 million for Q3 2014, compared to \$15.3 million in Q3 2013. The 33% decrease is attributable to a 25% decrease in production volumes and a 10% decrease in the average commodity price. Oil prices in Tunisia are based on a premium or discount to Brent over the 3 day lifting period, depending on the payment settlement terms. 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). In Q3, 2014, Brent prices averaged \$101.82 per bbl compared to \$108.45 per bbl in the comparable period.

For the nine months ended September 30, 2014, Tunisian revenues totalled \$35.0 million, compared to \$15.3 million in the comparable period. The increase in revenues compared to 2013 is primarily attributable to the acquisition of Winstar in 2013.

**Royalties**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Ukraine	\$ 14,974	\$ 7,701	\$ 27,711	\$ 22,675
Tunisia (a)	1,352	2,040	4,623	2,040
Total royalties	<u>\$ 16,326</u>	<u>\$ 9,741</u>	<u>\$ 32,334</u>	<u>\$ 24,715</u>
<b>\$/boe</b>	<u>\$ 23.49</u>	<u>\$ 16.76</u>	<u>\$ 17.37</u>	<u>\$ 17.66</u>
Royalties by Location as a percentage of sales				
Ukraine	41.5%	25.6%	31.2%	25.9%
Tunisia	13.1%	13.3%	13.2%	13.3%
	<u>35.2%</u>	<u>21.5%</u>	<u>26.1%</u>	<u>24.0%</u>

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

The average royalty rate for the three and nine month periods ended September 30, 2014 were 35.2% and 26.1%, respectively, as compared to 21.5% and 24.0% in the prior year. The increase in royalty rates is attributable to an increase in rates in Ukraine.

In Ukraine, the average royalty rate for the three and nine months ended September 30, 2014 was 41.5% and 31.2%, respectively, as compared to 25.6% and 25.9% in the comparable periods of 2013, respectively.

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.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

On August 1, 2014 Ukrainian Parliament and President passed a law to increase natural gas and condensate royalties to 55% and 45% respectively, from their current levels of 28% and 42%, effective August 1, 2014 and lasting until January 1, 2015. Unless subsequently renewed or extended, royalties would then revert back to current levels (i.e. 28% and 42%). The new law also contains provisions for a "lowering coefficient" on new gas wells drilled after August 1, 2014. This reduces the royalties paid on production from those new wells to 55% of the nominal rate for a period of two years (i.e. the effective gas royalty rate for new wells would be 30.25%). In addition, the tax base used to calculate royalties is no longer the average customs value of imported gas, as it was, but is now the price level for natural gas sold to industrial consumers, which is set by the NERC of Ukraine.

For the three and nine months ended September 30, 2014, the Tunisia royalty rate is consistent at approximately 13.1%. Tunisian royalties are based on individual concession agreements, none of which 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%. In Sabria the R-factor calculation is estimated based on 2014 budgeted information.

On a year to date basis similar trends are noted as the average royalty rate increased to 26.1% from 24.0% in 2013.

**Production expenses**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Ukraine	\$ 2,978	\$ 364	\$ 9,323	\$ 11,173
Tunisia (a)	3,143	2,175	10,037	2,175
Canada	188	-	188	-
Production expenses	<u>\$ 6,309</u>	<u>\$ 2,539</u>	<u>\$ 19,548</u>	<u>\$ 13,348</u>
Production expense by location (\$/boe)				
Ukraine	\$ 5.07	\$ 0.83	\$ 6.16	\$ 8.90
Tunisia	29.21	15.11	28.85	15.11
	<u>\$ 9.08</u>	<u>\$ 4.37</u>	<u>\$ 10.50</u>	<u>\$ 9.54</u>

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

On an absolute basis, production expenses have increased 148% to \$6.3 million in Q3 2014 from \$2.5 million in Q3 2013. The apparent increase during the third quarter versus Q3 2013 is due to unrealistically low production costs in 2013 resulting from adjustments of approximately \$2.1 million or \$3.61 per boe to capitalize costs that were incorrectly expensed during the second quarter of 2013 in Ukraine. Excluding the prior period adjustment, total production costs for the prior period were \$7.98 per boe.

On a per boe basis, production expenses increased to \$9.08 per boe in Q3 2014 compared to \$4.37 per boe in Q3 2013. Ukraine production expense was \$5.07 per boe compared to \$0.83 (\$5.63 adjusted) per boe. Adjusting for the prior period adjustment, the decrease in production expenses is due to the weakening of Ukrainian hryvnia as the Ukraine business is reported in US Dollars. Tunisia's production has higher average production expenses as compared to Ukraine, as Tunisia's production is weighted to oil which has a higher cost to produce than the Ukraine natural gas properties. Tunisia production costs for Q3 2014 averaged \$29.21 per boe, compared to \$15.11 per boe in the comparable period, the increase attributable to higher staff costs in 2014.

For the nine months ended September 30, 2014, production expenses have increased to \$19.5 million from \$13.3 million in 2013. On a per boe basis production expenses have increased from \$9.54 per boe in the prior year to \$10.50 per boe, reflecting increased production. The increase in Tunisia per boe production costs for 2014 are primarily attributed to higher staff costs in 2014. Production costs in Ukraine have decreased 31% year over year to \$6.16 per boe, due to increased production levels and the weakening of the Ukrainian hryvnia.

For the three and nine months ended September 30, 2014, production expenses included \$0.2 million related to the Sturgeon Lake assets. As part of the Winstar acquisition, the Company acquired interests in a minor property in Sturgeon Lake, Alberta, Canada. The asset is not producing and is incurring minimal operating costs to maintain the property.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

**Oil and Gas Netback**

<b>Ukraine Netback by Commodity</b> (Volume in thousand)	Three months ended Sept 30, 2014			Three months ended Sept 30, 2013		
	Oil and liquids			Oil and liquids		
	Gas (Mcf)	(bbl)	Total (boe)	Gas (Mcf)	(bbl)	Total (boe)
Average daily sales volumes (gross)	37,585	122	<b>6,386</b>	27,626	149	<b>4,753</b>
Average daily sales volumes (net to Serinus)	26,310	85	<b>4,470</b>	19,338	104	<b>3,327</b>
Revenue	\$ 10.17	\$ 84.98	<b>\$ 61.47</b>	\$ 11.32	\$ 93.52	<b>\$ 68.73</b>
Royalty expense	(4.19)	(44.09)	<b>(25.49)</b>	(2.84)	(36.04)	<b>(17.61)</b>
Production expenses	(0.86)	-	<b>(5.07)</b>	(0.14)	-	<b>(0.83)</b>
<b>Netback</b>	<b>\$ 5.12</b>	<b>\$ 40.89</b>	<b>\$ 30.91</b>	<b>\$ 8.34</b>	<b>\$ 57.48</b>	<b>\$ 50.29</b>
	Nine months ended Sept 30, 2014			Nine months ended Sept 30, 2013		
	Oil and liquids			Oil and liquids		
	Gas (Mcf)	(bbl)	Total (boe)	Gas (Mcf)	(bbl)	Total (boe)
Average daily sales volumes (gross)	32,438	136	<b>5,542</b>	26,537	176	<b>4,599</b>
Average daily sales volumes (net to Serinus)	22,706	95	<b>3,879</b>	18,576	123	<b>3,218</b>
Revenue	\$ 9.71	\$ 80.09	<b>\$ 58.78</b>	\$ 11.50	\$ 92.75	<b>\$ 69.87</b>
Royalty expense	(2.97)	(37.10)	<b>(18.31)</b>	(2.89)	(35.45)	<b>(18.07)</b>
Production expenses	(1.05)	-	<b>(6.16)</b>	(1.54)	-	<b>(8.90)</b>
<b>Netback</b>	<b>\$ 5.69</b>	<b>\$ 42.99</b>	<b>\$ 34.31</b>	<b>\$ 7.07</b>	<b>\$ 57.30</b>	<b>\$ 42.90</b>
	Three months ended Sept 30, 2014			Three months ended Sept 30, 2013		
	Oil and liquids			Oil and liquids		
	Gas (Mcf)	(bbl)	Total (boe)	Gas (Mcf)	(bbl)	Total (boe)
Average daily sales volumes (net to Serinus)	1,761	876	<b>1,170</b>	2,398	1,165	<b>1,565</b>
Revenue	\$ 14.73	\$ 98.06	<b>\$ 95.63</b>	\$ 14.43	\$ 113.39	<b>\$ 106.56</b>
Royalty expense	(1.83)	(13.10)	<b>(12.57)</b>	(1.92)	(15.08)	<b>(14.18)</b>
Production expenses	(5.06)	(28.83)	<b>(29.21)</b>	(2.52)	(15.11)	<b>(15.11)</b>
<b>Netback</b>	<b>\$ 7.84</b>	<b>\$ 56.13</b>	<b>\$ 53.85</b>	<b>\$ 9.99</b>	<b>\$ 83.20</b>	<b>\$ 77.27</b>
	Nine months ended Sept 30, 2014			Nine months ended Sept 30, 2013		
	Oil and liquids			Oil and liquids		
	Gas (Mcf)	(bbl)	Total (boe)	Gas (Mcf)	(bbl)	Total (boe)
Average daily sales volumes (net to Serinus)	1,888	960	<b>1,275</b>	808	393	<b>528</b>
Revenue	\$ 14.46	\$ 105.01	<b>\$ 100.50</b>	\$ 14.43	\$ 113.39	<b>\$ 106.56</b>
Royalty expense	(1.84)	(14.03)	<b>(13.29)</b>	(1.92)	(15.08)	<b>(14.18)</b>
Production expenses	(4.87)	(28.73)	<b>(28.85)</b>	(2.52)	(15.11)	<b>(15.11)</b>
<b>Netback</b>	<b>\$ 7.75</b>	<b>\$ 62.25</b>	<b>\$ 58.36</b>	<b>\$ 9.99</b>	<b>\$ 83.20</b>	<b>\$ 77.27</b>

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

In Ukraine, the netback decreased to \$30.91 per boe in Q3 2014 compared to \$50.29 per boe in the comparable period of 2013, due to higher royalties, lower realized prices and higher production expenses.

For the nine months ended September 30, 2014 the netback decreased to \$34.31 compared to \$42.90 in 2013, primarily due to a lower realized price as a result of the incentives agreement in early 2014 and a 62% deterioration in the Ukrainian hryvnia to the US Dollar since the beginning of the year.

In Tunisia, the netback was \$53.85 per boe for Q3 2014 compared to \$77.27 in Q3 2013. The decrease in Q3 2014 is due to higher production expenses and lower realized prices. Production expenses are higher in Q3 2014 due to an increase in staff related costs. On a year to date basis similar trends are noted as the netback decreased to \$58.36 per boe compared to \$77.27 per boe in 2013. Operating results from Tunisia are included from June 24, 2013, the date of acquisition, onwards.

**General and Administrative**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
General and administrative	\$ 3,403	\$ 4,265	\$ 7,809	\$ 9,642
<b>\$/boe</b>	<b>\$ 4.90</b>	<b>\$ 7.34</b>	<b>\$ 4.20</b>	<b>\$ 6.89</b>

General and administrative ("G&A") costs for Q3 2014 have decreased to \$3.4 million, compared to \$4.3 million in the comparative period of 2013. The decrease in costs is mainly attributable to lower professional and consulting fees.

For the nine month period G&A costs have decreased by \$1.8 million due to non-routine charges in 2013 of \$1.6 million for consulting services provided in Ukraine.

On a per boe basis, G&A costs have decreased to \$4.90 per boe and \$4.20 per boe for the three and nine months ended September 30, 2014, respectively compared to \$7.34 per boe and \$6.89 per boe 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**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Transaction costs	\$ (59)	\$ 949	\$ 1,441	\$ 3,404
<b>\$/boe</b>	<b>\$ (0.08)</b>	<b>\$ 1.63</b>	<b>\$ 0.77</b>	<b>\$ 2.43</b>

Transaction costs are project related expenditures. The three and nine months expense comprises of costs associated with listing of shares issued on the Winstar acquisition on the Warsaw Stock Exchange and other corporate related projects. The third quarter has a recovery of expenses due to \$0.3 million of costs that were reimbursed during the quarter.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

**Stock based compensation**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Stock based compensation	\$ 685	\$ 393	\$ 2,402	\$ 831
<b>\$/boe</b>	<b>\$ 0.99</b>	<b>\$ 0.68</b>	<b>\$ 1.29</b>	<b>\$ 0.59</b>

Stock based compensation was \$0.7 million for Q3 2014 (Q3 2013: \$0.4 million). The increase in Q3 2014 reflects the number of options granted and immediately vested, whereas fewer options were granted during the comparable period of 2013.

A similar trend is noted on a year to date basis.

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**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Ukraine	\$ 5,254	\$ 5,480	\$ 15,322	\$ 15,555
Tunisia	2,846	3,172	8,862	3,172
Corporate	41	35	108	111
Depletion and depreciation (" <b>D&amp;D</b> ")	<b>\$ 8,141</b>	<b>\$ 8,687</b>	<b>\$ 24,292</b>	<b>\$ 18,838</b>
Impairment	\$ -	\$ -	\$ 337	\$ -
D&D by location (\$/boe)				
Ukraine	\$ 8.94	\$ 12.53	\$ 10.13	\$ 12.39
Tunisia	26.45	22.04	25.47	22.04
	<b>\$ 11.71</b>	<b>\$ 14.95</b>	<b>\$ 13.05</b>	<b>\$ 13.46</b>

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

The depletion and depreciation expense for the three months ended September 30, 2014 decreased to \$8.1 million from \$8.7 million in the comparative period of 2013 due to lower production in Tunisia.

On a year to date basis, the increase in depletion and depreciation expense to \$24.3 million as compared to \$18.8 million in 2013 is attributable to the acquisition of the Tunisian assets.

On a per boe basis, depletion expense has decreased to \$11.71 per boe and \$13.05 per boe for the three and nine months ended September 30, 2014, respectively, compared to \$14.95 per boe and \$13.46 per boe in the comparative periods of 2013. The decrease is due to lower depreciation rates per boe in the Ukraine, primarily due to deterioration in the hryvnia, which has resulted in lower net book values.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

**Interest expense and accretion**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Interest on long-term debt	\$ 427	\$ 516	\$ 2,072	\$ 2,052
Interest on convertible note payable and convertible debentures	54	128	922	911
Other interest charges	3	137	98	179
Accretion on asset retirement obligations	212	272	639	295
	<u>\$ 696</u>	<u>\$ 1,053</u>	<u>\$ 3,731</u>	<u>\$ 3,437</u>

Interest and accretion expense decreased by \$0.4 million for the three months ended September 30, 2014. The decrease is attributable to the repayment of the Dutco loan early in the quarter. Interest and accretion expense increased by \$0.3 million for the nine months ended September 30, 2014. The increase is mainly attributable to the inclusion of accretion expense associated with the Winstar properties.

**Foreign exchange loss**

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Foreign exchange loss	\$ 2,308	\$ (120)	\$ 6,825	\$ 162

The financial statements are presented in U.S. dollars, which is the reporting currency of the Company. For the three and nine month period ended September 30, 2014, a foreign exchange loss of \$2.3 million and \$6.8 million is recorded in the income statement.

The financial statements of KUB-GAS use the Ukraine Hryvnia as its functional currency. As a result of a 13% and 62% deterioration of the Hryvnia versus the US dollar during the three and nine months ended September 2014, the translation of balances denominated in currencies other than Hryvnia at period end into Hryvnia resulted in a foreign exchange loss of \$1.4 million and \$5.9 million for the three and nine months ended September 30, 2014 (2013: \$0.2 million and \$0.4 million). This foreign exchange loss is recorded in the income statement.

On consolidation of KUB-GAS by the Company, the assets and liabilities of KUB-GAS are translated into U.S. dollars at exchange rates at the balance sheet date. Revenues and expenses of foreign operations are translated into U.S. dollars using foreign exchange rates that approximate those on the date of the underlying transaction. These translation gains and losses are included in accumulated other comprehensive income (loss), with a loss of \$6.5 million and \$27.4 million being recorded for the three and nine month period ended September 30, 2014. An appreciation in the exchange rate would have the opposite effect.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

**Summarized Balance Sheet (\$'000's)**

	As at September 30, 2014	As at December 31, 2013	As at December 31, 2012
Total current assets	\$ 45,201	\$ 37,039	\$ 40,305
Total non-current assets	261,861	275,434	147,404
Total assets	307,062	312,473	187,709
Total current liabilities	48,668	60,171	39,088
Total non-current liabilities	102,385	81,758	25,171
Total liabilities	151,053	141,929	64,259
Total share capital	344,479	344,403	231,516
Total equity	156,009	170,544	123,450

**Total Assets**

Total assets as at September 30, 2014 were \$307.1 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 was partially offset by an increase in accounts receivable in Tunisia from their partner, ETAP, in the Sabria permit for drilling capital spent during the year.

**Total Liabilities**

Total liabilities as at September 30, 2014 were \$151.1 million compared to \$141.9 million as at December 31, 2013, an increase of \$9.2 million. The increase is due to \$30.0 million of drawdowns on the EBRD-Tunisia loan, partially offset by the decline in exchange rate between the Ukraine hryvnia and the US Dollar and repayments of \$15.0 million on the Dutco facility.

**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 September 30, 2014, this includes certain Ukraine assets 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 September 30, 2014 this includes certain Ukraine assets and the Tunisian assets.

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	2014	2013
Capital expenditures on property, plant and equipment	\$ 13,725	\$ 11,407	\$ 35,617	\$ 19,646
Capital expenditures on exploration and evaluation assets	1,828	19,060	6,246	30,874
Total capital expenditures	<u>\$ 15,553</u>	<u>\$ 30,467</u>	<u>\$ 41,863</u>	<u>\$ 50,520</u>
Expenditure by location				
Ukraine	\$ 1,552	\$ 12,094	\$ 14,080	\$ 22,998
Tunisia	12,925	1,037	23,411	1,037
Brunei	-	17,003	337	26,152
Romania	1,702	333	4,343	333
Other	(626)	-	(308)	-
	<u>\$ 15,553</u>	<u>\$ 30,467</u>	<u>\$ 41,863</u>	<u>\$ 50,520</u>



**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

In Ukraine, the Company incurred \$1.6 million and \$14.1 million of capital expenditures for the three and nine month periods ended September 30, 2014, which included drilling on the M-17, O-11 and NM-4 wells and completion work on the Makeevskoye facility.

The M-17 well was drilled in the first quarter of 2014 to a total depth of 3,445 metres. During the second quarter, the well was cased and the service rig began completion operations. Prior to cessation of developmental field operations, the Company completed and tested the M-17 well. Logs indicated pay in the S5 and S6 zones, and resource potential in the R30c and S7 sections. The S7 tested 900 Mcf/d without stimulation. The S6 was tested at multiple rates, the highest of which was 6.6 MMcf/d. The S6 zone was placed on production on June 26. During the third quarter the M-17 well averaged 11.9 MMcf/d (8.3 MMcf/d net to Serinus).

The O-11 well was spud on April 4, 2014 after the drilling rig moved on from M-17. It reached its planned depth of 3,230 metres in late May, and was cased and the rig released. In June, the well was perforated, and experienced a strong air blow, followed by gas to surface. The well was shut in for a pressure build up.

The NM-4 well was spud on June 16, and drilled to a depth of 102 metres. Surface casing was run and cemented in place prior to suspending drilling operations.

Work was completed on the Makeevskoye gas processing facility. Gas began flowing through the facility on March 6, 2014, and the M-16 well was re-routed to that new facility at the end of April.

On October 2, 2014, the Company announced that the security situation had improved in and around the Makeevskoye, Olgovskoye and North Makeevskoye licenses and the Company resumed drilling activity in the Makeevskoye license with the spud of the M-22 well. The M-22 well is targeting a new Serpukhovian accumulation to the southwest of the pool containing the M-16 and M-17 wells.

A fracture stimulation campaign had also been planned for later in the year for O-11, O-15, NM-3 and M-17. The fracture program is now planned for 2015 due to the security situation.

In Tunisia, capital expenditure of \$12.9 million and \$23.4 million were incurred for the three and nine month periods. In the third quarter, the WIN-12bis well was spud on July 17, 2014 and has reached planned total depth of 3,855 metres. Following rig release, Win-12bis will be tied into the flowline and put on an extended production test. Once drilling of Win-12bis is complete, the rig will move to Winstar-13 drilling location. In Ech Chouech and Chouech Es Saida, a full workover rig commenced operations on May 29. In the Ech Chouech field, the EC-4 and ECS-1 wells were worked over, perforated and fractured. In the Chouech Es Saida field, CS-8 bis and CS-11 wells were worked over to replace the pumps.

On a year-to-date basis, spending in the nine months had been on well site preparation, minor work over initiatives, and the workover of CS-Sil-1 well using a coiled tubing unit was completed. The CS-Sil-1 workover was successful in restoring the well to production at a rate of approximately 400 - 500 Mcf/d and 40 - 50 bbl/d of oil. The coiled tubing unit also attempted to recomplete CS-Sil-10 from the Triassic TAGI sandstone to the Silurian Tannezuft, but was unsuccessful. Both wells are being reviewed to determine additional measures to increase or restore production.

A 203.5 km<sup>2</sup> 3D seismic program over the Sanrhar field commenced in early June. The acquisition of the data has been completed and processing of the data is approximately 50% complete. Legacy sparse 2D data indicates a number of four-way structural closures which this program will investigate more thoroughly.

In Romania, amounts were spent on the seismic program and the preparation for the drilling campaign. The two well drilling program started early November with both wells to be drilled back to back. Shooting of new 3D seismic commenced in September and is approximately 60% complete. The survey area covers 180 km<sup>2</sup> located approximately 35 km southwest of the Moftinu field against the western boundary of the Satu Mare concession.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

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

	As at September 30, 2014	As at December 31, 2013
Ukraine	\$ 5,230	\$ 10,947
Romania	8,099	887
	<u>\$ 13,329</u>	<u>\$ 11,834</u>

**Debt and Convertible Debt**

	As at September 30, 2014	As at December 31, 2013
Current liabilities, net of current assets	\$ 3,467	\$ 23,132
Long-term debt	26,009	8,030
Net debt	<u>\$ 29,476</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 was 12 months with interest calculated on outstanding amounts at a rate of 12% per annum and paid monthly. As at September 30, 2014, the Dutco Credit Facility was fully repaid.

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

***EBRD-Tunisia Loan Facility***

On November 20, 2013 the Company finalized two loan agreements aggregating USD \$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.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

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 September 30, 2014, the Company has drawn \$20.0 million of the Senior Loan, \$10.0 million of the Convertible Loan and incurred transaction costs of \$0.9 million. In addition, the Company locked in the interest rate on the \$20.0 million of the Senior Loan at a rate of 6.9% for a two year period from September 30, 2014 to September 30, 2016.

***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 licenses 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 September 30, 2014, \$4.2 million of principal and interest was outstanding (December 31, 2013: \$7.6 million). In January 2014 and July 2014, scheduled repayments of \$1.8 million each were made.

**Covenants**

---

***EBRD-Tunisia Loan Facility***

As at September 30, 2014, \$20 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 September 30, 2014, the Company's debt service coverage ratio under the terms of the EBRD-Tunisia Loan Facility was calculated to be 40:1. 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 \$44.0 million for the 12 month period ended September 30, 2014. The coverage required is based on the scheduled EBRD-Tunisia Loan Facility principal and interest payments for the same period which were \$1.1 million as at September 30, 2014.

At September 30, 2014, the Tunisian Subsidiary's debt service coverage ratio under the terms of the EBRD-Tunisia Loan Facility was calculated to be 17:1. 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 \$19.1 million for the 12 month period ended September 30, 2014. The coverage required is based on the scheduled EBRD-Tunisia Loan Facility principal and interest payments for the same period which were \$1.1 million as at September 30, 2014.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

At September 30, 2014 the Company's ratio of financial debt to EBITDA was calculated to be 0.4:1. 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 \$37.4 million as at September 30, 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 \$85.6 million for the 12 month period ending September 30, 2014.

At September 30, 2014 the Tunisian Subsidiary's ratio of financial debt to EBITDA was calculated to be 1.3:1. 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 \$37.2 million as at September 30, 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 \$28.7 million for the 12 month period ending September 30, 2014.

The Company was in compliance with all associated EBRD-Tunisia Loan Facility covenants above at September 30, 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 September 30, 2014, 2014, KUB Gas's debt service coverage ratio under the terms of the EBRD-Ukraine Loan Facility was calculated to be 5.3:1. 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 479.7 million Ukrainian hryvnia for the 12 month period ending September 30, 2014. The coverage required is based on the scheduled EBRD-Ukraine Facility principal and interest payments for the same period which was 90.3 million Ukrainian hryvnia as at September 30, 2014.

At September 30, 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 0.59 million Ukrainian hryvnia as at September 30, 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 692.9 million Ukrainian hryvnia for the 12 month period ending September 30, 2014.

At September 30, 2014 KUB Gas LLC Company was in compliance with these financial ratios. The total outstanding balance on this facility as at September 30, 2014 was \$4.2 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. 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 are sufficient to support the intensive capital investment program of the Company and settle any outstanding working capital deficiency.

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.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

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 \$305 million in the aggregate since the formation of the Company, and the proceeds of the debentures, which have totalled \$56 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 US Dollars and other currencies resulted in a foreign exchange loss of \$2.3 million for the three months ended September 30, 2014.

At September 30, 2014, the Company had debt consisting of two loans with the EBRD which have variable rates, but with the option to convert to a fixed rate. The Company has fixed the interest rate on the first \$20 million tranche of the Senior Loan at 6.9% for the two year period of September 30, 2014 to September 30, 2016. At September 30, 2014, approximately 12% 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 was fully repaid in the third quarter.

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 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.

Dividends can be paid out of the Ukrainian subsidiary providing the terms and conditions of the EBRD loan agreement are met. However, on September 22, 2014 the National Bank of Ukraine issued a resolution prohibiting foreign exchange transactions associated with the payment of dividends to foreign investors. This restriction is in place until December 2, 2014. In the meantime cash balances will accumulate in KUB-Gas until such time they can be paid out of Ukraine to the shareholders. As of September 30, 2014, KUB-Gas had \$6.85 million of cash on hand.

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; and there have been no legal or economic restrictions experienced by the Company, until the announcement of the above noted restriction on the payment of dividends out of Ukraine, for such cash transfers. Prior to this announcement, the only restriction was terms and conditions of the EBRD loan agreement which restricted the ability of KUB-Gas to pay dividends, repay loans or loan money to the Company. In 2014, the working capital covenant relating to the EBRD Ukraine loan was removed from the loan agreement.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

As operator of the Block 9 joint venture in Syria, the Company 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 is complying with sanctions placed by the governments of the United States, Canada, the Arab League and the European Union on its 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 September 30, 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**

	As at September 30, 2014	As at December 31, 2013
Current assets	\$ 45,201	\$ 37,039
Current liabilities	48,668	60,171
Working capital	<u>\$ (3,467)</u>	<u>\$ (23,132)</u>

The Company has working capital deficit of \$3.5 million as at September 30, 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, general, accounting and administrative services to the Company at its offices in Dubai on a cost-sharing basis. For the three and nine months ended September 30, 2014, the fees totalled \$0.2 and \$0.6 million, respectively (2013: \$0.2 million and \$0.5 million). At September 30, 2014, \$138 thousand 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 and nine months ended September 30, 2014, these fees totalled \$3 thousand and \$8 thousand (2013: \$3 thousand and \$9 thousand). At September 30, 2014, Loon Energy owed \$nil (December 31, 2013: \$nil) to Serinus for these services. Serinus and Loon Energy are related as they have five common directors and officers and the same principal shareholder.

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

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

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

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:

	Within 1 Year	2-3 Years	4-5 Years	+5 Years	Total
Office Rental	\$ 504	\$ 943	\$ 1,044	\$ 1,137	\$ 3,628
EBRD loan-Ukraine	4,086	81	-	-	4,167
EBRD loan-Tunisia	3,333	6,667	6,667	12,594	29,261
Total contractual obligations	<u>\$ 7,923</u>	<u>\$ 7,691</u>	<u>\$ 7,711</u>	<u>\$ 13,731</u>	<u>\$ 37,056</u>

The Company's commitments are all in the ordinary course of business and include the work commitments for Brunei Block L, 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 drilled in October and the second in December.

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

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

***Syria***

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

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

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 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 \$22 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 2015 with follow up wells based on test results.

***Tunisia***

The Tunisian state oil and gas company, 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 September 30, 2014 cumulative liquid hydrocarbon sales net of royalties and shrinkage was 4.9 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 km<sup>2</sup> of 3D seismic. These expenditures are currently being incurred and will continue into early 2015.

***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.



**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

**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:

	<b>Q3 2014</b>	<b>Q2 2014</b>	<b>Q1 2014</b>	<b>Q4 2013</b>
Oil and gas revenue	\$ 46,407	\$ 41,635	\$ 35,863	\$ 43,700
Netback (\$/boe)	\$ 34.19	\$ 44.38	\$ 38.27	\$ 43.18
Earnings (loss) for the period				
Common shareholders	\$ 3,793	\$ 5,344	\$ 1,657	\$ (79,740)
Non-controlling interest	\$ 2,758	\$ 3,389	\$ 1,077	\$ 2,837
Per share - basic and diluted attributable to common shareholders	\$ 0.05	\$ 0.07	\$ 0.02	\$ (1.01)
Average daily production (boe) (gross)	7,556	6,531	6,351	6,631
Average daily production (boe) (net to Serinus)	5,640	4,965	4,849	5,079
	<b>Q3 2013</b>	<b>Q2 2013</b>	<b>Q1 2013</b>	<b>Q4 2012</b>
Oil and gas revenue	\$ 45,394	\$ 28,929	\$ 28,709	\$ 27,338
Netback (\$/boe)	\$ 56.97	\$ 37.80	\$ 40.08	\$ 49.20
Earnings (loss) for the period				
Common shareholders	\$ 8,147	\$ 829	\$ 2,082	\$ (917)
Non-controlling interest	\$ 3,815	\$ 2,352	\$ 2,152	\$ 1,982
Per share - basic and diluted attributable to common shareholders	\$ 0.10	\$ 0.02	\$ 0.04	\$ (0.02)
Average daily production (boe) (gross)	6,318	4,541	4,500	4,194
Average daily production (boe) (net to Serinus)	4,892	3,179	3,151	2,937

During the period from Q4 2012 to Q2 2013, 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 16%. 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. In Q3 2014, the netback was negatively impacted by the increase in royalties in Ukraine effective August 1, 2014.

**Share Data**

The Company is authorized to issue an unlimited number of common shares of which 78,629,941 common shares and 5,679,400 options with a USD exercise price and 79,000 options with a Canadian Dollar ("CAD") exercise price to purchase common shares were outstanding as at September 30, 2014.

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

Summary of common shares outstanding:

	<b>Number of Shares</b>	<b>Carrying Amount</b>
Balance, December 31, 2013	78,611,441	\$ 344,403
Issued on exercise of stock options	18,500	76
Balance, September 30, 2014	78,629,941	\$ 344,479

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

Summary of options outstanding:

The following table summarizes information about common share purchase options outstanding at September 30, 2014:

	USD denominated options		CAD denominated options	
	Number of Options	Weighted average exercise price per option (US\$)	Number of Options	Weighted average exercise price per option (CAD\$)
Balance, December 31, 2013	7,089,900	\$ 4.69	-	\$ -
Granted	248,000	\$ 3.54	79,000	\$ 2.66
Exercised	(18,500)	\$ 2.85	-	\$ -
Expired	(1,640,000)	\$ 5.41	-	\$ -
Balance at September 30, 2014	<u>5,679,400</u>	<u>\$ 4.39</u>	<u>79,000</u>	<u>\$ 2.66</u>

The Company granted 248,000 USD share purchase options at a weighted price of \$3.54 per share to certain employees of Serinus. In addition, the Company granted a total of 79,000 Canadian denominated stock options to employees at a weighted average exercise price of CAD\$2.66 with 12,000 being granted during the 3 months ended September 30, 2014. 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 following tables summarize information about the USD and CAD options outstanding as at September 30, 2014:

USD denominated options:

Exercise price (US\$)	Outstanding	Exercisable	Weighted average contractual life remaining, years
\$ 2.85 - \$ 3.50	518,000	289,668	3.98
\$ 3.51 - \$ 4.00	1,365,400	1,365,400	1.71
\$ 4.01 - \$ 5.00	2,761,000	1,169,665	3.96
\$ 5.01 - \$ 6.20	1,035,000	1,035,000	0.71
<u>\$ 4.39</u>	<u>5,679,400</u>	<u>3,859,733</u>	<u>2.83</u>

CAD denominated options:

Exercise price (CAD\$)	Outstanding	Exercisable	Weighted average contractual life remaining, years
\$ 1.56 - \$ 2.50	12,000	4,000	4.88
\$ 2.51 - \$ 3.22	67,000	22,333	4.71
<u>\$ 2.66</u>	<u>79,000</u>	<u>26,333</u>	<u>4.74</u>

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

At the date of issuing this report, the following are the options outstanding and changes to executives and officers options owned since December 31, 2013, up to the date of this report:

<u>Name of Director/Executive Officer/Key Person</u>	<u>Options held as at November 12, 2014</u>
Timothy M. Elliott	1,153,600
Norman W. Holton	953,300
Manaj Narender Madnani	171,000
Michael A. McVea	150,000
Gary King	120,000
Stephen Akerfeldt	171,000
Helmut Langanger	150,000
Sebastian Kulczyk (1)	-
Jock M. Graham	1,003,100
Edwin A. Beaman	87,000
Aaron LeBlanc	99,000
Evgenij Lorich (2)	100,000
Tracy Heck	150,000
Jakub Korczak	99,000
Alec Silenzi	90,000
	<u>4,497,000</u>

- 1) Mr. Kulczyk holds a senior executive position with KI. KI owns 39,909,606 Shares. By virtue of his position with KI, Mr. Kulczyk is deemed to have direction over such Shares in addition to those Shares that are shown above.
- 2) Mr. Iorich holds a position with Pala Investments, which is related to Pala Assets Holdings Limited ("Pala"). Pala owns 5,880,484 Shares. By virtue of his position with Pala Investments, Mr. Iorich is deemed to have direction over such Shares in addition to those Shares that are shown above.

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 September 30, 2014.

During the period covered by this report there was no change in the of number of shares owned by Serinus directors and executive officers, except a change in the number of shares owned by Mr. Timothy M. Elliott - President and CEO of Serinus –who held 600,000 Serinus Shares as at the date of issuing this report. As the result of transactions executed on August 15, August 20 and 22<sup>nd</sup> Mr. Elliott acquired respectively 12,800, 6,700 and 8,163 Shares. The complete list of shares owned by remaining Serinus directors and executive officers is presented in the Management's Discussion and Analysis for the year ended December 31, 2013.

### **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 and political risk. 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, liquidity and commodity price risks.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

***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 \$42 thousand based on the debt balance outstanding at September 30, 2014. Restricted cash is in instruments that are redeemable only upon completion of certain work commitments and therefore is subject to interest rate fluctuations. However, the interest rate risk thereon is not significant.

***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. With the dividend restriction in Ukraine, cash balances will accumulate at the international bank holding the cash in Ukraine. As at September 30, \$6.85 million of the cash balance is held in Ukraine.

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 September 30, 2014, the Company had \$2.0 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. For the nine month period ending September 30, 2014, the Company has four customers with sales representing 31%, 21%, 20% and 11% of total sales.

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 September 30, 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:

	September 30, 2014				December 31, 2013			
	CAD	UAH	TD	LEU	CAD	UAH	TD	LEU
Cash and cash equivalents	121	91,146	6,134	27	112	22,027	446	947
Accounts receivable	89	23,340	19,932	3,500	103	22,640	16,793	120
Prepaid expenses	482	23,127	631	87	318	46,479	97	-
Accounts payable and accrued liabilities	(990)	(132,315)	(28,257)	(2,109)	(879)	(66,266)	(17,261)	(498)
Net foreign exchange exposure	(298)	5,298	(1,560)	1,505	(346)	24,880	75	569
US \$ equivalent at period end exchange rate	\$ (266)	\$ 398	\$ (866)	\$ 431	\$ (325)	\$ 3,001	\$ 46	\$ 177

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

For the nine months ended September 30, 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 \$27 thousand.

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 \$87 thousand.

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:

	As at September 30, 2014	As at December 31, 2013
Cash and cash equivalents	\$ 68	\$ 66
Loan with parent	(1,327)	(4,870)
Loan with third parties	(4,166)	(7,666)
Accounts payable and accrued liabilities	(1,174)	(2,626)
Net foreign exchange exposure	<u>\$ (6,599)</u>	<u>\$ (15,096)</u>

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 \$0.6 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 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.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

**Safety, Environmental and Regulatory Risk**

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.

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.

**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 restricted development activities but has not had any significant impact on the Company's production operations. However, whilst management believes it is taking appropriate measures to support the sustainability of 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.

**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**

---

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

The first challenge that affected operations was the reduction in realized gas prices during Q1 due to the discount on imported Russian gas, and the deterioration of the UAH/USD exchange rate, reducing cash flow from operations for the quarter. The Company adjusted by delaying certain operations such as the Tunisian and Romanian drilling programs and seismic acquisition to later in the year. These delays were implemented to impose the greatest delays on operations that would not have contributed to 2014 production (i.e. the seismic and Romanian drilling programs), and it was believed at the time that the 6,500 boe/d exit rate was still attainable.

The second challenge was the decision made in late June to suspend drilling, workover and construction operations in eastern Ukraine due to the deterioration of the security situation. Drilling recommenced early October with the result that the 2014 drilling program will be one well short of its original goal.

The third challenge was the imposition of a new royalty regime in Ukraine which will significantly affect the amount of cash flow available for this year's development program.

Capital expenditures in Tunisia will be funded through the Company's financing arrangements with the EBRD. Capital expenditures in Ukraine will be funded by Ukraine cash flow and capital expenditures in Romania will be funded by corporate cash flow.

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

---

**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;
- 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; and
- 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

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

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 and nine months ended September 30, 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”, “working capital” and certain terms under the loan covenants 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.

**Future Changes in Accounting Policies**

---

(i) New and Amended Standards Adopted

On January 1, 2014, the Company adopted the 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. Adoption of the amendment had no impact to the consolidated financial statements.

(ii) New Standards and Interpretations not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 2014 reporting period.

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.

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for fiscal years ending on or after December 31, 2017. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

On July 24, 2014 the IASB issued IFRS 9 Financial Instruments. The package of improvements introduced by IFRS 9 includes a revised model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The new Standard will come into effect on 1 January 2018 with early application permitted. The extent of the impact of adoption of the standard 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 September 30, 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



**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

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 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. The ICFR is based on the framework in "Internal Control Over Financial Reporting - Guidance for Smaller Public Companies" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992.

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 material 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.

<b>Crude Oil and Natural Gas Liquids</b>		<b>Natural Gas</b>	
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

**Serinus Energy Inc.**  
**Management's Discussion and Analysis**  
**As at, and for three and nine months ended September 30, 2014**  
**(Stated in thousands of US Dollars, except as noted)**

Production information is commonly reported in units of barrel of oil equivalent ("boe" or "BOE") or in units of natural gas equivalent ("Mcf"). 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.

**Additional Information**

---

Additional information regarding Serinus and its business and operations is available at [www.sedar.com](http://www.sedar.com). Information is also accessible on the Company's website at [www.serinusenergy.com](http://www.serinusenergy.com). Copies of the information can also be obtained by contacting the Company at Serinus Energy Inc, 1500, 700 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3J4 (Phone: +1 403 264-8877) or by e-mail at [ryanw@serinusenergy.com](mailto:ryanw@serinusenergy.com).