Serinus Energy Inc.

Consolidated Financial Statements
As at and for the years ended December 31, 2017 and 2016
(US dollars in 000s)

Management’s Responsibility Statement

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

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

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

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

“Signed” Jeffrey Auld

Jeffrey Auld
Chief Executive Officer

“Signed” Tracy Heck

Tracy Heck, CPA, CA
Chief Financial Officer

March 20, 2018

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Serinus Energy Inc.

We have audited the accompanying consolidated financial statements of Serinus Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Serinus Energy Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which describes that as at December 31, 2017, Serinus Energy Inc. has a working capital deficiency of $6.6 million, incurred a loss of $18.8 million and has negative cash flows from operating activities of $4.3 million during the year ended December 31, 2017. Serinus Energy Inc.'s ability to continue as a going concern is dependent on its ability to generate future cash from operations and/or obtaining the necessary financing required to meet its ongoing production expenditures, corporate general and administrative expenses, development program and discharge its liabilities as they come due. The need to generate cash from operations, or from other sources of financing, to fund ongoing operations indicate the existence of a material uncertainty that may cast significant doubt about Serinus Energy Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

March 20, 2018
Calgary, Canada

Serinus Energy Inc.
Consolidated Statements of Financial Position
(thousands of US dollars) (audited)

As at:	**December 31 2017**	**December 31 2016**
Assets		
Current assets		
Cash and cash equivalents	$ 7,252	$ 4,297
Accounts receivable	2,980	1,358
Income tax receivable (note 17)	2,216	2,581
Prepaids and other	355	209
Commodity inventory (note 5)	1,492	1,194
Restricted cash (note 6)	1,098	1,089
Total current assets	15,393	10,728
Investment (note 7)	-	67
Property, plant and equipment (note 9)	99,578	73,770
Exploration and evaluation (note 8)	-	20,271
Total assets	$ 114,971	$ 104,836
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 16)	$ 17,404	$ 15,693
Advances for crude oil sales	353	-
Income taxes payable (note 17)	1,321	-
Current portion of long-term debt (note 10)	-	30,699
Asset retirement obligations (note 11)	2,882	2,811
Total current liabilities	21,960	49,203
Long-term debt (note 10)	31,261	-
Asset retirement obligations (note 11)	42,799	37,425
Other provisions (note 12)	1,747	1,148
Deferred income tax liability (note 17)	13,500	13,310
Total liabilities	111,267	101,086
Shareholders' Equity		
Shareholders' capital (note 13)	362,534	344,479
Contributed surplus	22,487	21,796
Deficit	(381,317)	(362,525)
Total shareholders' equity	3,704	3,750
Total liabilities and shareholders' equity	$ 114,971	$ 104,836

Going concern (note 2)
Commitments (note 20)
Subsequent event (note 23)

See accompanying notes to the consolidated financial statements.

"Signed"	*"Signed"*
ELEANOR BARKER	JEFFREY AULD
DIRECTOR, CHAIR OF THE AUDIT COMMITTEE	DIRECTOR, PRESIDENT AND CEO

Serinus Energy Inc.
Consolidated Statement of Operations and Comprehensive Loss
(US000s, except for per share data) (audited)
For the years ended December 31,

	Year ended 2017	Year ended 2016
Petroleum and natural gas revenues	$ 6,271	$ 14,753
Change in oil inventory	298	1,194
	6,569	15,947
Royalties	(680)	(1,972)
	5,889	13,975
Operating expenses		
Production expenses	5,250	9,358
General and administrative	3,005	8,320
Share-based compensation (note 14)	691	85
Transaction costs (note 16)	705	97
Gain on disposition of assets (note 16)	(2,179)	-
Well incident expense (note 16)	4,047	-
Depletion and depreciation	1,866	5,258
Change in ARO provision (note 11)	1,155	-
Impairment expense (note 9)	4,981	16,754
Total operating expenses	19,521	39,872
Finance expense		
Unrealized loss on investments (note 7)	13	8
Interest expense and accretion	3,603	4,255
Foreign exchange loss	51	717
Net finance expense	3,667	4,980
Net loss before income taxes	(17,299)	(30,877)
Current income tax expense (note 17)	1,303	1
Deferred income tax expense (recovery) (note 17)	190	(3,357)
Net loss from continuing operations	(18,792)	(27,521)
Net loss from discontinued operations, net of tax (note 21)	-	(30,657)
Net loss	$ (18,792)	$ (58,178)
Other comprehensive loss		
Foreign currency translation adjustment from discontinued operations (note 21)	-	(2,290)
Comprehensive loss	$ (18,792)	$ (60,468)
Net loss attributable to:		
Common shares	(18,792)	(58,899)
Non-controlling interest (note 21)	-	721
	$ (18,792)	$ (58,178)
Comprehensive loss attributable to:		
Common shares	(18,792)	(60,502)
Non-controlling interest	-	34
	$ (18,792)	$ (60,468)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows
(thousands of US dollars) (audited)

For the years ended December 31,	Year ended 2017	Year ended 2016
Operating activities		
Net loss	$ (18,792)	$ (58,178)
Items not involving cash:		
Depletion and depreciation (note 9)	1,866	5,857
Impairment (note 9)	4,981	16,754
Change in ARO provision (note 11)	1,155	-
Accretion expense (note 11)	684	777
Gain on disposition of assets (note 16)	(2,179)	33,040
Share-based compensation (note 14)	691	85
Unrealized loss on investments (note 7)	13	8
Expenditures on decommissioning liabilities (note 11)	-	(407)
Foreign exchange loss unrealized	12	378
Other provisions (note 12)	599	-
Deferred income tax expense (recovery) (note 17)	190	(3,357)
Non-cash equity issued	7	-
Interest expense	2,919	3,403
Funds used in operations	(7,854)	(1,640)
Changes in non-cash working capital	3,518	205
Cashflows used in operating activities	(4,336)	(1,435)
Financing activities		
Common shares issued, net of costs (note 13)	18,048	-
Repayment of long-term debt (note 10)	(1,667)	(26,061)
Interest and financing fees paid (note 10)	(754)	(1,435)
Changes in non-cash working capital	111	88
	15,738	(27,408)
Investing activities		
Property, plant and equipment expenditures, net (note 9)	(418)	(1,914)
Exploration expenditures (note 8)	(8,431)	(1,737)
Disposal of discontinued operations, net (note 21)	-	27,843
Proceeds on disposition of investment	54	-
Change in restricted cash (note 6)	64	287
Changes in non-cash working capital	298	(2,802)
	(8,433)	21,677
Impact of foreign currency translation on cash	(14)	(354)
Change in cash and cash equivalents	2,955	(7,520)
Cash and cash equivalents, beginning of year	4,297	11,817
Cash and cash equivalents, end of year	$ 7,252	$ 4,297
Supplemental information		
Cash income taxes paid	$ 63	$ -

See accompanying notes to the consolidated financial statements.

Serinus Energy Inc.
Consolidated Statements of Shareholders' Equity
(thousands of US dollars) (audited)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Non-controlling interest	Deficit	Total
Balance at December 31, 2015	$ 344,479	$ 21,711	$ (32,585)	$ 16,219	$ (303,626)	$ 46,198
Share-based compensation	-	85	-	-	-	85
Foreign currency translation adjustment	-	-	(1,603)	(687)	-	(2,290)
Disposition of subsidiary (note 21)	-	-	34,188	(16,253)	-	17,935
Net earnings (loss)	-	-	-	721	(58,899)	(58,178)
Balance at December 31, 2016	$ 344,479	$ 21,796	$ -	$ -	$ (362,525)	$ 3,750
Equity offering (net of issue costs (note 13)	18,048	-	-	-	-	18,048
Common shares issued (note 13)	7	-	-	-	-	7
Share-based compensation	-	691	-	-	-	691
Net loss	-	-	-	-	(18,792)	(18,792)
Balance at December 31, 2017	$ 362,534	$ 22,487	$ -	$ -	$ (381,317)	$ 3,704

See accompanying notes to the consolidated financial statements.

1. Reporting entity

Serinus Energy Inc. ("Serinus" or the "Company") is principally engaged in the exploration for and development of oil and gas properties in Tunisia and Romania. Serinus is incorporated under the Business Corporations Act (Alberta, Canada). The Company's head office and registered office is located at 1500, 700-4th Avenue SW, Calgary, Alberta, Canada, T2P 3J4.

Serinus is a publicly listed company whose common shares are traded under the symbol "SEN" on the Toronto Stock Exchange ("TSX") and the Warsaw Stock Exchange ("WSE"). Kulczyk Investments, S.A. ("KI") holds a 52.17% investment in Serinus as of December 31, 2017.

The consolidated financial statements for Serinus include the accounts of Serinus and its subsidiaries as at and for the years ended December 31, 2017 and 2016.

2. Basic of presentation

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that Serinus will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

At December 31, 2017, there are material uncertainties that may cast significant doubt with respect to the ability of the Company to continue as a going concern. The Company's ability to continue as a going concern is dependent on its ability to generate future cash flows from operations and/or obtain the necessary financing required to meet its ongoing production expenditures, corporate G&A, development program and discharge its liabilities as they come due. There is no assurance that financing, or cash generated by operations, will be available or sufficient to meet these requirements, or if debt or equity financing is available, that it will be on terms acceptable to the Company. The Company's cash generating ability was impacted by events in Tunisia and Romania. The situation in Tunisia, where social unrest resulted in the Company shutting-in production during 2017, reduced the Company's ability to generate cash flows from operating activities. The well incident in Romania in December 2017 resulted in the delay of first production and cash flows in Romania (see note 16(ii)).

In October 2017, the Company entered into Amendment and Restatement Agreements (the "Agreements") relating to the Senior Loan and Convertible Loan with the European Bank for Reconstruction and Development ("EBRD") which have provided relief from covenants until September 2018 (see note 10). Therefore, the Company does not anticipate breaching covenants in the foreseeable future.

As at December 31, 2017, the Company had a working capital deficiency of $6.6 million and negative cash flows from operating activities of $4.3 million for the year ended December 31, 2017 (2016: working capital of $38.5 million, due to the reclassification of the debt as current, and negative cash flows from operating activities of $1.4 million).

The need to generate cash flows from operations, or other sources of financing, to fund ongoing operations create material uncertainties that may cast significant doubt with respect to the ability of the Company to continue as a going concern.

These consolidated financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern.

Statement of compliance

In these consolidated financial statements, unless otherwise indicated, all dollars are expressed in U.S. dollars. All references to US$ are to U.S. dollars. All financial information is rounded to the nearest thousands, except per share amounts and when otherwise indicated.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). The consolidated financial statements have been prepared on the historical cost basis, except as detailed in the Company's accounting policies set out below. The consolidated financial statements were approved by the Board of Directors on March 20, 2018.

3. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities over which the Company has control. All intercompany balances and transactions, and any unrealized gains or losses arising from intercompany transactions are eliminated upon consolidation. Serinus has three directly held subsidiaries, Serinus Holdings Limited ("Serinus Holdings"), Serinus Petroleum Consultants Limited ("Serinus Petroleum") and Winstar Resources Limited ("Winstar"). Through Serinus Holdings, the Company has the following indirect wholly-owned subsidiaries, Kulczyk Oil Brunei Limited and AED South East Asia Ltd., which held the Company's interests in Brunei Block L, and KOV Borneo Limited, which held the Company's interest in Brunei Block M. Through Winstar, Serinus has one wholly-owned subsidiary Winstar B.V., which in turn owns 100% of Winstar Tunisia B.V. ("Winstar Tunisia"), and 99.9995% of Serinus Energy Romania S.A. ("Serinus Romania"). Winstar Tunisia owns the remaining 0.0005% of Serinus Romania. Effective January 1, 2018, Serinus and Winstar amalgamated resulting in Serinus directly holding the interest in Winstar B.V.

A portion of the Company's exploration, development and production activities are conducted through jointly controlled assets. The consolidated financial statements include the Corporation's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(b) Business combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the cash paid and the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of an acquisition is below the fair values of the identifiable net assets acquired, the difference is recognized immediately in the statement of earnings (loss) and comprehensive earnings (loss) in the period of acquisition. Generally, acquisitions of exploration and evaluation assets do not meet the definition of a business. Associated transaction costs are expensed when incurred. The Company has no goodwill.

(c) Segment information

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

(d) Foreign currency

Foreign currency transactions

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

Foreign currency translation

In preparing the Company's consolidated financial statements, the financial statements of each entity are translated into U.S. dollars, the functional currency of Serinus and its subsidiaries, with the exception of KUBGas, which used the Ukrainian Hryvnia as its functional currency up until the date of disposition (see note 21). The assets and liabilities of foreign operations that do not have a functional currency of U.S. dollars, are translated into U.S. dollars using exchange rates at the balance sheet date. Revenues and expenses of foreign operations are translated into U.S. dollars using foreign exchange rates that approximate those on the date of the underlying transaction. Foreign exchange differences are recognized in Other Comprehensive Income.

(e) Revenue recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when title passes to the purchaser at the delivery point and collection is reasonably assured. Crude oil and natural gas sold below or above the Company's production results in production under-lifts or over-lifts. Under-lifts are recorded as inventory at market value with a corresponding increase to change in oil inventory, while over-lifts are recorded as deferred revenue at market value with a corresponding decrease to change in oil inventory.

Prices for crude oil and natural gas in Tunisia are established at the market based on actual correspondence of supply and demand at a particular period.

(f) Transaction costs
Costs paid by the Company related to specific projects, excluding common share and debt issuance costs, are recognized when services are provided.

(g) Share-based compensation
The Company has issued options to directors, officers and employees to purchase common shares. The expense is based on the fair value of the options at the time of the grant using the Black-Scholes options pricing model. The options granted are expensed over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(h) Finance costs
Finance costs comprise of interest expense on borrowings, accretion of the asset retirement provision and accretion of transaction costs incurred on debt. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

(i) Income taxes
Current and deferred income taxes are recognized in net earnings (loss), except when they relate to items that are recognized directly in equity or other comprehensive income, in which case the current and deferred taxes are also recognized directly in equity or other comprehensive income, respectively. When current income tax or deferred income tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current income taxes are measured at the amount expected to be paid to or recoverable from the taxation authorities based on the income tax rates and laws that have been enacted at the end of the reporting period.

The Company follows the balance sheet method of accounting for deferred income taxes, where deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates expected to apply when the assets are realized or the liabilities are settled. Deferred income tax balances are adjusted for any changes in the enacted or substantively enacted tax rates and the adjustment is recognized in the period that the rate change occurs.

Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are recognized to the extent that it is probable future taxable profits will be available against which the temporary differences can be utilized. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered. Deferred income tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction. Deferred income tax assets and liabilities are presented as non-current.

(j) Cash and cash equivalents
Cash and cash equivalents include short-term investments such as term deposits held with banks or similar type instruments with a maturity of three months or less. Restricted cash is comprised of cash held in trust by a financial institution for the benefit of a third party as a guarantee that certain work commitments will be met. Once the work commitments are met, the restricted cash is released from the trust and returned to cash.

(k) Commodity inventory
Commodity inventory is comprised of oil produced and held at the end of the year (“commodity inventory”). In the second quarter of 2016, the Company entered into a marketing agreement with Shell International Trading and Shipping Company Limited (“Shell’) for the sale of its Tunisian oil production. The terms of this agreement are such that crude oil accumulates in storage until lifting and prepayments of cash are received monthly for a proportion of this accumulated crude oil. As the crude oil accumulates, the Company records inventory at its net realizable value and the change in inventory is recorded in the income statement as Change in oil inventory. The cash prepayments that are received monthly from Shell are presented on the balance sheet as “Advances for crude oil sales”. Once the crude oil is physically lifted onto tankers and title passes, the Inventory and Advances are reversed and an Accounts Receivable is set up for the remaining amount due from Shell, and the Change in oil inventory in the income statement is reclassified as Revenue.

(l) Financial instruments

Non-derivative financial instruments include cash and cash equivalents, restricted cash, trade and other receivables, investment, trade and other payables and long-term debt. Non-derivative financial instruments are measured at fair value on initial recognition, plus any directly attributable transaction costs, except for financial assets at fair value through profit or loss whereby any directly attributable transaction costs are expensed as incurred. After initial recognition, measurement of non-derivative financial instruments depends on their classification as described below. The Company has no derivative financial instruments.

<u>Financial assets and liabilities at fair value through profit or loss</u>

After the initial recognition, this financial instrument is measured at fair value, and changes therein are recognized in profit or loss. The Company's investment in Jura Energy Corporation, a publicly-traded company held for trading (level 1 input), was a financial asset recorded at fair value through profit or loss until its disposition during 2017.

<u>Financial assets and liabilities at amortized cost</u>

After the initial recognition, these financial instruments are measured at amortized cost using the effective interest method through profit or loss. Serinus' assets in this category include trade and other receivables. Serinus' liabilities in this category include trade and other payables and long-term debt.

<u>Impairment of financial assets</u>

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

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

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

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

(m) Assets held for sale and discontinued operations

Assets and liabilities are classified as held for sale if their carrying amounts are expected to be recovered through a disposition rather than through continuing use. The assets or disposal groups are measured at the lower of their carrying amount and fair value less costs of disposal. Impairment losses on initial classification as well as subsequent gains or losses on re-measurement are recognized in Asset Impairment. However, when the assets or disposal groups are sold, the gains or losses on sale are recognized in the account "gain (loss) on disposal". Assets classified as held for sale are not depreciated, depleted or amortized.

Individual non-current assets or disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held-for-sale. The results of discontinued operations are shown separately in the consolidated statements of operations with comparative figures restated. Detailed disclosure of revenue, expenses, pre-tax profit (loss) and income taxes is disclosed in the notes. Cash flows and comparative figures are disclosed in the notes.

(n) Exploration and evaluation and Property, plant and equipment

<u>Exploration and evaluation ("E&E") expenditures</u>

Pre-license costs are costs incurred before the legal rights to explore a specific area have been obtained. These costs are expensed in the period in which they are incurred.

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

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

The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proved or probable reserves. A review of each exploration license or field is carried out, at least annually, to ascertain whether the project is technically feasible and commercially viable. Upon determination of technical feasibility and commercial viability, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property, plant and equipment referred to as oil and natural gas interests.

Development and production costs

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

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

Subsequent costs

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

Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit-of-production method based on estimated proved and probable reserves, taking into account future development costs, which are estimated costs to bring those reserves into production. For purposes of the depletion petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of natural gas equates to one barrel of oil.

Certain of the Company's assets are not depleted based on the unit of production method as they relate to infrastructure, corporate and other assets. Such plant and equipment items are recorded at cost and are depreciated over the estimated useful lives of the asset using the declining balance basis at rates ranging from 20% to 45%. The expected lives of other plant and equipment are reviewed on an annual basis and, if necessary, changes in expected useful lives are accounting for prospectively. Field inventory which is included in other plant and equipment is valued at the lower of cost or net realizable value and is not depreciated.

Impairment

The carrying amounts of the Company's property, plant and equipment are reviewed whenever events or changes in circumstances indicate that that the carrying value of an asset may not be recoverable and at a minimum at each reporting date. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash generating unit or "CGU"). The Company's CGU's generally align with each concession or production sharing contract. The recoverable amount is then estimated. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

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

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

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

(o) Provisions

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

Asset retirement obligations
Asset retirement obligations ("ARO") include legal or constructive obligations where the Company will be required to retire tangible long-lived assets such as well sites and processing facilities. The amount recognized is the present value of estimated future expenditures required to settle the obligation using the risk-free interest rate associated with the type of expenditure and respective jurisdiction. A corresponding asset equal to the initial estimate of the liability is capitalized as part of the related asset and depleted to expense over its useful life. The obligation is accreted until the date of expected settlement of the retirement obligation and is recognized within financial costs in the statement of operations and comprehensive earnings (loss).

Changes in the estimated liability resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rates are recognized as changes in the ARO provision and related asset. Actual expenditures incurred are charged against the provision to the extent the provision was established.

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

(p) Long-term debt
The convertible loans are classified as financial liabilities at amortized costs and are reported at amortized costs.

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

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

(s) Per share amounts
Basic earnings or loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

(t) Recent Accounting Pronouncements

Revenue from Contracts with Customers
In April 2016, the IASB issued its final amendments to IFRS 15 "*Revenue from Contracts with Customers",* which will replace IAS 11 "*Construction Contracts"* and IAS 18 "*Revenue"* and the related interpretations on revenue recognition. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The new standard moves away from a revenue recognition model based on an earnings process to an approach that is based on transfer of control of a good or service to a customer. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded to include the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers.

The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The standard is required to be adopted retrospectively to each period presented or retrospective using a modified approach as a cumulative-effect adjustment as of the date of adoption. The Company will adopt the standard on January 1, 2018 using the modified retrospective approach, which requires recognizing the cumulative impact of adoption, if any, in retained earnings as of January 1, 2018. Comparative periods will not be restated. The Company has completed reviewing its underlying revenue contracts and has concluded that the adoption of IFRS 15 will not have a material impact on the Company's consolidated financial statements. Under IFRS 15 revenue will be recognized once volumes are delivered for lifting rather than the current requirement to recognize upon lifting. This will impact the presentation in the statement of operations as the amount recorded currently as "change in oil inventory" will be recognized as "petroleum and natural gas revenues". This has no impact on net earnings. Likewise, on the statement of financial position, commodity inventory under the current standard net of advances for crude oil sales, will under the new standard be recorded as a trade receivable. The Company will expand the disclosure in the notes to the consolidated financial statements as prescribed by IFRS in Q1 2018.

Financial Instruments
In July 2014, the IASB issued the last version of IFRS 9 "*Financial Instruments" ("IFRS 9") to* replace IAS 39 "*Financial Instruments: Recognition and Measurement" ("IAS 39")*.

The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages it financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The IAS 39 measurement categories for financial assets will be replaced by fair value through profit or loss, fair value through other comprehensive income ("FVOCI") and amortized cost. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivable and available for sale.

IFRS 9 retains most of the IAS 39 requirements for financial liabilities. However, where fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded through other comprehensive income rather than net earnings. Serinus currently does not designate any financial liabilities as fair value through profit or loss; therefore, there will be no impact on the accounting for financial liabilities.

The new standard also changes how debt modifications are treated. Under IAS 39, debt modifications did not have an impact on profit and loss. However, under IFRS 9, the difference between the carrying amount of the financial liability, and the present value of the estimated future contractual cash flows discounted at the original effective interest rate, must be recognized in profit and loss. As the Company renegotiated the repayment terms on its long-term debt, effective October 31, 2017, the impact of IFRS 9 will be to recognize a modification loss of $0.4 million on the Senior Loan, and a modification gain of $1.4 million on the Convertible Loan. The net impact will be a $1.0 million modification gain which will decrease long-term debt and increase opening retained earnings as at January 1, 2018.

The new standard also introduces an expected credit loss model for evaluating impairment of financial assets. The new model will result in more timely recognition of expected credit losses. The Company does not expect the change in the impairment model to have a material impact on the consolidated financial statements.

In addition, IFRS 9 provides a simplified hedge accounting model, aligning hedge accounting more closely with risk management activities. The Company currently does not apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018 with early adoption permitted. The Company will apply the new standard retrospectively. Comparative periods will not be restated.

Leases
In January 2016, the IASB issued IFRS 16 "*Leases" ("IFRS 16"),* which requires entities to recognize assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue and what assets would be recorded.

IFRS 16 is effective for years beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 "*Revenue From Contracts With Customers*" has been adopted. The standard shall be applied retrospectively to each period presented or using a modified retrospective approach where the Company recognizes the cumulative effect as an adjustment to the opening retained earnings and applies the standard prospectively. The Company is currently in the process of identifying, gathering, and analyzing contracts that fall into the scope of the standard. The extent of the impact of the adoption of the standard has not yet been determined. The Company plans to apply IFRS 16 effective January 1, 2019. The Company intends to adopt the standard using the modified retrospective approach recognizing the cumulative impact of adoption in retained earnings as of January 1, 2019 and apply several of the practical expedients available such as low-value and short-term exemptions.

4. Significant accounting estimates and judgements

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

Significant estimates and judgments made by management in the consolidated financial statements are described below:

Oil and gas reserves
Measurements of depletion, depreciation, impairment, ARO and business acquisitions are determined in part based on the company's estimate of oil and gas reserves and resources. The process of determining reserves is complex and involves the exercise of professional judgement. All reserves have been evaluated at December 31, 2017 by independent qualified reserves evaluators. All significant judgments are based on available geological, geophysical, engineering, and economic data. These judgments are based on estimates and assumptions that may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, prices, economic conditions, and an assumed 100% interest in the Satu Mare concession. As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices and economic conditions. Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions could be material and result in either positive or negative amounts.

The cash flow model used to value oil and gas properties incorporates estimates of future commodity prices. Generally, the pricing assumptions used are those of the external reserve engineer adjusted for differentials specific to the Company. Commodity prices can fluctuate for a variety of external reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors as well as internal reasons including quality differentials.

Oil and gas activities

The Company is required to apply judgment when designating the nature of oil and gas activities as exploration, evaluation, development or production, and when determining whether the initial costs of these activities are capitalized and reclassified. The company is required to make judgments about future events and circumstances and applies estimates to assess the economic viability of extracting the underlying resources.

Cash generating units

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

Impairment and reversals

Judgment in assessing the existence of impairment and impairment reversal indicators is based on various internal and external factors. The recoverable amount of CGUs and individual assets is determined on the higher of fair value less cost of disposal or value in use. Key estimates in determining the recoverable amount normally include proved and probable reserves, forecasted commodity prices, expected production, future operating and development costs, discount rates and tax rates. In determining the recoverable amount, management may also need to make assumptions regarding the likelihood of an event. Changes to these estimates and judgements will impact the recoverable amounts of CGUs and individual assets and may require a material adjustment to their carrying value.

Asset retirement obligations

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

Deferred income taxes

Estimates and assumptions are used in the calculation of deferred income taxes. Judgments include assessing whether tax assets can be recognized is based on expectations of future cash flows from operations and the application of existing tax laws and terms of concession agreements. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the balance sheet date could be impacted by a material amount. Additionally, changes in tax laws could limit the ability of the Company to obtain tax deductions in the future.

The determination of the Company's taxable income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. Estimates that require significant judgments are also made with respect to the timing of temporary difference reversals, the realizability of tax assets and in circumstances where the transaction and calculations for which the ultimate tax determination are uncertain. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Share-based compensation

Stock options issued by the Company are recorded at fair value using the Black-Scholes option pricing model. The calculation of share-based payment expense requires estimates which involve assumptions about the share price volatility, forfeiture rates, option life, dividend yield and risk-free rate at the initial grant date. Changes to these estimates impact the stock based compensation expense and contributed surplus and may have a material impact on the amounts presented.

(Thousands of US dollars, unless otherwise noted)

5. Commodity inventory

	As December 31, 2017	2016
Balance, beginning of year	$ 1,194	$ -
Additions	3,573	13,143
Lifting	(3,275)	(11,949)
Balance, end of year	$ 1,492	$ 1,194

Commodity inventory represents crude oil produced and stored awaiting lifting. In the second quarter, 2016 the Company entered into a marketing agreement with Shell International Trading and Shipping Company Limited ("Shell") for the sale of its Tunisian oil production. The terms of this agreement are such that crude oil accumulates in storage until lifting and prepayments of cash are received monthly for a proportion of this accumulated crude oil. As the crude oil accumulates, the Company records inventory at its net realizable value and the change in inventory is recorded in the income statement as "Change in oil inventory". The cash prepayments that are received monthly from Shell are presented on the balance sheet as "Advances for crude oil sales". Once the crude oil is physically lifted onto tankers and title passes, the inventory and advances are reversed and an accounts receivable is set up for the remaining amount due from Shell, and the Change in oil inventory in the income statement is reclassified as Revenue. As at December 31, 2017 there were $0.4 million in advances for crude oil sales (December 31, 2016: $nil).

6. Restricted cash

The Company has cash on deposit with the Alberta Energy Regulator of $1.1 million, as required to meet future abandonment obligations existing on certain oil and gas properties in Canada (December 31, 2016: $1.1 million). The fair value of restricted cash approximates the carrying value.

7. Investment

The Company held a 1.1% shareholding interest in Jura Energy Corporation, a public-company traded on the TSX. The market value of the investment was $54 thousand when it was disposed in May 2017 (December 31, 2016 was $67 thousand).

8. Exploration and evaluation

	As December 31, 2017	2016
Balance, beginning of year	$ 20,271	$ 18,521
Additions	8,431	1,737
Changes in asset retirement obligations	600	13
Transfers to property, plant, and equipment	(29,302)	-
Impairment	-	-
Balance, end of year	$ -	$ 20,271

Exploration and evaluation assets were comprised of Romania assets. During Q4 2017, it was determined that these assets met the conditions of technical feasibility and commercial viability to transfer them to property, plant and equipment. The Company transferred the capitalized costs from exploration and evaluation assets to property, plant and equipment primarily upon the establishment of proved and probable reserves in Romania and the status of the gas plant construction. On transfer from exploration and evaluation an impairment test was undertaken, grouped by the concession, which resulted in no impairment charge on reclassification from E&E assets to PP&E, based on the proved plus probable reserves associated with the Moftinu development as at December 31, 2017 assessed by external reserves engineers, using a risk adjusted discount rate of 13.5%, reserve report forecast natural gas prices ranging from $6.09 per mcf to $7.12 per mcf, and net of future development capital of $17.9 million required to develop the proved and probable reserves.

(Thousands of US dollars, unless otherwise noted)

9. Property, plant and equipment

	Oil and gas interests	Other	Total
Cost or deemed cost:			
Balance, December 31, 2015	$ 219,314	$ 2,603	$ 221,917
Capital expenditures	1,899	15	1,914
Change in asset retirement obligations (note 11)	191	-	191
Dispositions	-	(91)	(91)
Balance, December 31, 2016	$ 221,404	$ 2,527	$ 223,931
Capital expenditures	449	(28)	421
Transfers from exploration and evaluation	29,302	-	29,302
Change in asset retirement obligations (note 11)	2,935	-	2,935
Dispositions	-	(10)	(10)
Balance, December 31, 2017	$ 254,090	$ 2,489	$ 256,579
Accumulated depletion and depreciation:			
Balance, December 31, 2015	$ (126,944)	$ (1,296)	$ (128,240)
Depletion and depreciation	(4,956)	(302)	(5,258)
Dispositions	-	91	91
Impairment	(16,754)	-	(16,754)
Balance, December 31, 2016	$ (148,654)	$ (1,507)	$ (150,161)
Depletion and depreciation	(1,670)	(196)	(1,866)
Dispositions	-	7	7
Impairment	(4,981)	-	(4,981)
Balance, December 31, 2017	$ (155,305)	$ (1,696)	$ (157,001)
Net book value:			
Balance, December 31, 2016	$ 72,750	$ 1,020	$ 73,770
Balance, December 31, 2017	$ 98,785	$ 793	$ 99,578

Future development costs associated with the proved plus probable reserves of $52.0 million (2016 - $50.3 million) were included in the depletion calculation.

As at December 31, 2017, there were no impairment indicator triggers indicating the need for an impairment test, as such, no additional impairment or reversals have been recorded in Q4 2017.

At September 30, 2017, as a result of negative technical revisions, due to prolonged shut-ins and decreased performance, and sustained low commodity prices, the Company recorded an impairment of $5.0 million using a fair value less costs to sell methodology. The following summarizes the recoverable amount and the total impairment recorded for each Tunisia CGU:

As at September 30, 2017	Recoverable amount	Impairment
Sabria	$ 17,013	$ -
Chouech Es Saida	7,262	4,981
Ech Chouech	-	-
Sanrhar	-	-
Zinnia	-	-
	$ 24,275	$ 4,981

The fair value less costs of disposal values used to determine the recoverable amount of the Tunisia CGU are classified as Level 3 fair value measures as they are based on the Company's estimate of key assumptions that are not based on observable market data. The fair values were based on: proved plus probable reserves and 2C contingent resources assessed by external reserves engineers as at September 30, 2017, risk-adjusted discount rates of 20-27% and the following benchmark reference prices adjusted for commodity differentials specific to the Company:

(Thousands of US dollars, unless otherwise noted)

	Oil (US$/bbl)	Gas (US$/mcf)	
Year	All fields	Sabria	Chouech
2017	53.19	6.21	5.95
2018	55.00	6.42	6.15
2019	57.50	6.71	6.43
2020	59.00	6.89	6.60
2021	62.80	7.33	7.03
2022	66.50	7.76	7.44
2023	69.00	8.06	7.72
2024	72.00	8.41	8.06
2025	76.30	8.91	8.54
2026	79.00	9.22	8.84
2027	85.33	9.96	9.55
2028	87.04	10.16	9.74
2029	88.78	10.37	9.93
2030	90.55	10.57	10.13
2031	92.36	10.78	10.33
2032	94.21	11.00	10.54
2033	96.10	11.22	10.75
2034	98.02	11.44	10.97
Remaining	99.98	11.67	11.19

The estimates of recoverable values are sensitive to discount rate and future commodity prices. Changes to these assumptions would have had the following impact on the impairment of PP&E:

As at September 30, 2017	Discount rate-1% change	Future commodity prices-10% change
Sabria	$ 1,310	$ 12,628
Chouech Es Saida	98	2,893
Ech Chouech	-	-
Sanrhar	-	-
Zinnia	-	-
	$ 1,408	$ 15,521

For the year ended December 31, 2016, the Company recorded total impairment expense of $16.8 million due to declining commodity prices and negative technical revisions, using fair value less costs to sell methodology. The recoverable amount for the Tunisia concession of $27.1 million was not sufficient to support the carrying amounts of the assets resulting in the impairment at December 31, 2016. The fair values were based on: year-end proved plus probable reserves assessed by external reserves engineers, risk-adjusted discount rates of 24-27% and the following benchmark reference prices adjusted for commodity differentials specific to the Company:

	Oil (US$/bbl)	Gas (US$/mcf)	
Year	All fields	Sabria	Chouech
2017	$ 54.82	$ 5.84	$ 6.15
2018	$ 60.30	$ 6.42	$ 6.77
2019	$ 62.64	$ 6.67	$ 7.03
2020	$ 65.44	$ 6.96	$ 7.34
2021	$ 69.54	$ 7.40	$ 7.80
2022	$ 75.64	$ 8.05	$ 8.48
2023	$ 79.04	$ 8.41	$ 8.86
2024	$ 82.74	$ 8.80	$ 9.27
2025	$ 87.71	$ 9.33	$ 9.83
2026	$ 89.43	$ 9.51	$ 10.02
2027	$ 91.22	$ 9.70	$ 10.23
2028	$ 93.05	$ 9.90	$ 10.43
2029	$ 94.92	$ 10.10	$ 10.64
2030	$ 96.82	$ 10.30	$ 10.85
2031	$ 98.78	$ 10.50	$ 11.07
Remaining	$ 122.69	$ 13.10	$ 13.70

The estimates of recoverable values are sensitive to discount rate and future commodity prices. Changes to these assumptions would have had the following impact on the impairment of PP&E:

(Thousands of US dollars, unless otherwise noted)

As at December 31, 2016	Discount rate-1% change	Future commodity prices-10% change
Sabria	$ 1,064	$ 10,192
Chouech Es Saida	243	4,122
Ech Chouech	-	-
Sanrhar	-	-
Zinnia	-	-
	$ 1,307	$ 14,314

10. Long-term debt

	2017	2016
Senior loan [(a)]	$ 5,505	$ 7,198
Convertible loan [(b)]	26,362	24,050
Debt-principal balance	31,867	31,248
Unamortized discounts and debt costs	(606)	(549)
	$ 31,261	$ 30,699
Current portion	-	30,699
Non-current portion	31,261	-
	$ 31,261	$ 30,699

[(a)] Balance includes loan principal and accrued interest as at December 31, 2017 and 2016.

[(b)] As at December 31, 2017, the convertible loan principal of $20.0 million has been fully drawn and is outstanding (December 31, 2016 - $20.0 million). The interest accrued on the convertible loan was $6.4 million at December 31, 2017 (2016 - $4.1 million).

On November 20, 2013, the Company finalized the EBRD Tunisia Loan Agreements, which consist of the Senior Loan and Convertible Loan, aggregating $60 million. The Senior Loan facility was in the amount of $40 million and was available in two tranches of $20 million, and the Convertible Loan was in the amount of $20 million and is fully-drawn. The loans were available to be drawn for a period of three years, such period has now expired. 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.

Effective October 31, 2017, the Company entered into amended loan Agreements, amending repayment terms of the debt, covenants and security, relating to the Senior Loan and Convertible Loan, as follows.

Senior Loan

Under the Agreements, the Senior Loan will be repayable in two instalments of $2.7 million each on March 31, 2019 and September 30, 2019. Previously, the Company had to apply 40% of its Excess Cash from Tunisia toward early repayment of the Senior Loan facility outstanding with EBRD. Under the restructured terms, the cash sweep is now computed at the corporate level and is calculated semi-annually on December 31 and June 30 of each year as long as balances remain outstanding on the Senior Loan. Any cash balance in excess of $7 million is to be used to prepay the senior loan in inverse order of maturity until the outstanding loan balance is no greater than that under the original amortization schedule. The Senior Loan interest remains payable semi-annually at a variable rate equal to LIBOR plus 6%.

Convertible Loan

Under the Agreements, the Convertible Loan will be repayable in four equal instalments on June 30, 2020, 2021, 2022 and 2023. Accrued interest up to June 30, 2020 will form part of the principal to be amortized over these repayment periods. Interest accruing subsequent to June 2020 will be paid annually with the principal repayments. The interest rate on the Convertible Loan remains at LIBOR plus a margin of between 8% and 17%, though this is now based on consolidated Tunisian and Romanian net revenues earned.

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.

(Thousands of US dollars, unless otherwise noted)

The conversion feature of the loan is based on market price, which would result in the issuance of a variable number of shares of the Company, and as a result, no value was allocated to the conversion option. The Convertible Loan was recorded as debt and classified as financial liabilities at amortized costs.

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.

The loans are secured by the Tunisia 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. The security was extended to include the shares of Serinus Energy Romania S.A, holder of the Romanian assets.

Amended covenants

The covenants under these Agreements will only be calculated at the consolidated level, and there is relief from covenants until the quarter ended September 30, 2018 when the consolidated debt to EBITDA covenant comes into effect with a required maximum ratio of 10.0 times and from December 2018 onwards with a maximum ratio of 2.5 times. The debt service coverage ratio becomes effective for the quarter ended December 31, 2018 with a minimum ratio of 1.3 times and is only applicable to the Senior Loan.

Covenants

Both loan agreements contain a number of affirmative covenants, including maintaining the specified security, environmental and social compliance, and maintenance of specified financial ratios. Effective October 31, 2017, the amended loan Agreements as noted above provide relief from covenants until September 2018.

Prior to the amendment, the covenants were at both the Corporate level and the Tunisia level. The debt service coverage ratio could not be less than 1.5 to 1 times at the Corporate level and 1.3 to 1 at the Tunisia level. The consolidated debt to EBITDA ratio could not exceed 2.75 to 1 at the Corporate level and 2.5 to 1 at the Tunisia level.

At December 31, 2016, the Company was not in compliance with the consolidated debt to EBITDA ratio covenant at the Tunisia level in effect at that time, resulting in the reclassification of its long-term debt to current as required under accounting standards.

Debt costs

Long-term debt transaction costs are recorded within long-term debt and are amortized over the remaining term of the committed credit facility. During 2017, additional transaction cost of $0.3 million were recorded (2016 - $nil) using the effective interest rate.

11. Asset retirement obligations

	As at December 31, 2017	2016
Balance, beginning of year	$ 40,236	$ 39,655
Liabilities incurred	676	-
Liabilities settled	-	(407)
Accretion	684	775
Change in estimate [(a)]	4,014	213
Foreign currency translation	71	-
Balance, end of year	$ 45,681	$ 40,236
Due within one year [(b)]	2,882	2,811
Long-term liability	42,799	37,425
	$ 45,681	$ 40,236

[(a)] Changes in the discount rate, inflation rate, timing of abandonment and reclamation of wells and facilities are factors resulting in a change in estimate.

[(b)] Reported as current liabilities as they relate to non-producing properties or expired production sharing contracts.

(Thousands of US dollars, unless otherwise noted)

The Company's asset retirement obligations are based on its net ownership in wells and facilities in Tunisia, Romania, Brunei, and Canada. Management estimates the costs to abandon and reclaim the wells and the facilities using existing technology and the estimated time period during which these costs will be incurred in the future.

The Company has estimated the asset retirement obligations of Brunei's Block L, Block M and the wells in Canada to be $2.9 million (December 31, 2016 - $2.8 million). These obligations are reported as current liabilities because they relate to non-producing properties or expired production sharing contracts.

Revisions in estimated future cashflows resulted from change in costs estimates, partially offset by accelerated timing of the obligations over the estimated life of the reserves. The undiscounted amount of estimated future cash flows required to settle obligations is $48.0 million (December 31, 2016 - $45.7 million) as follows:

As at December 31,		2017		2016
Brunei	$	1,801	$	1,811
Canada		1,081		1,000
Romania		1,204		600
Tunisia		43,953		42,277
	$	48,039	$	45,688
Due within on year		2,882		2,811
Long-term liability		45,157		42,877
	$	48,039	$	45,688

The discounted amount of estimated cash flow required to settle the asset retirement obligations of the Tunisia assets at December 31, 2017 using an estimated annual inflation rate of 2.1% (December 31, 2016 – 0.3%) and discounted at a risk-free rate of approximately 2.0% to 2.8% (December 31, 2016 – 1.8%) is $41.7 million (December 31, 2016 - $36.9 million). The discounted amount of estimated cash flow required to settle the asset retirement obligations of the Romania assets at December 31, 2017 using an estimated annual inflation rate of 2.5% (December 31, 2016 - 2.5%) and discounted at a risk-free rate of approximately 3.8% (December 31, 2016 - 3.5%) is $1.1 million (December 31, 2016 - $0.5 million). Management expects to incur these obligations between 2019 and 2057.

A change in ARO provision expense of $1.2 million was recognized for the year ended December 31, 2017 (December 31, 2016 – nil) for increases in asset retirement obligations estimates related to concessions that have previously been fully impaired and have no value.

12. Other provisions

		JV Audit		Severance		Total
Balance at December 31, 2015 and 2016	$	1,148	$	-	$	1,148
Provision made during the year		-		599		599
Balance at December 31, 2017	$	1,148	$	599	$	1,747
Current		-		-		-
Non-current	$	1,148	$	599	$	1,747

The Company is subject to audits from various counterparties arising in the normal course of business for which a provision is made to reflect management's best estimate of eventual settlement. Management expects settlement of the joint venture audits provision to occur later than twelve months from year end.

As at December 31, 2017, a provision was made for potential severance costs relating to the termination of employees in the Chouech Es Saida field in Tunisia. Management anticipates that the terminated employees would seek termination benefits through litigation. The severance provision is subject to legal arbitration and settlement is expected to occur later than twelve months from year end. During the year ended December 31, 2017, the Company recorded the provision of $0.6 million in production expenses.

13. Shareholders' capital

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares without nominal or par value. The preferred shares may be issued in one or more series, with rights and privileges as determined by the Board of Directors. There are no preferred shares issued.

(Thousands of US dollars, unless otherwise noted)

	Number of common shares		Amount
Balance, December 31, 2015 and 2016	78,629,941	$	344,479
Issued for cash	72,000,000		19,105
Issued for non-cash	22,197		7
Issuance costs, net of tax	-		(1,057)
Balance, December 31, 2017	150,652,138	$	362,534

On February 24, 2017, the Company issued 72 million common shares of the Company at CAD$0.35 per share for aggregate gross proceeds of CAD$25.2 million (net CAD$24.3 million, after agents' fees of CAD$0.9 million).

On April 6, 2017, 22,197 common shares were issued to Mr. Jeffrey Auld, the Chief Executive Officer of the Company, as part of his compensation.

The Company has a total of 150,652,138 shares outstanding at December 31, 2017 (December 31, 2016: 78,629,941).

Net earnings (loss) per share

		As December 31, 2017		2016
Net loss attributable to common shareholders:-				
Continuing operations	$	(18,792)	$	(27,521)
Discontinued operations		-		(31,378)
Net loss	$	(18,792)	$	(58,899)
Weighted average number of shares-basic and diluted: [1]		139,796,985		78,629,941
Net loss per share-continuing operations-basic and diluted	$	(0.13)	$	(0.35)
Net loss per share-discontinued operations-basic and diluted	$	-	$	(0.40)

[1] For the year ended December 31, 2017, 1.3 million stock options exercisable were anti-dilutive (December 31, 2016-$0.7 million stock options were anti-dilutive).

14. Share-based compensation

The Company has granted common share purchase options to officers, directors, and employees with exercise prices equal to or greater than the fair value of the common shares on the grant date. Upon exercise, the options are settled in common shares issued from treasury. For options issued prior to 2016, each tranche of the share purchase options has a five-year term and vest one-third immediately with the remaining two-thirds at one-third per year each on the anniversary of the grant date. In 2016, options were granted with a seven-year term and which vest one-third per year on the anniversary of the grant date for the three subsequent years. In 2017, options were granted with a five-year term, which vest one-third per year on the anniversary date for the three subsequent years. All options are to be settled by physical delivery of shares.

The weighted average fair value of options granted during the year ended December 31, 2017 was $0.21 per option (for the year ended December 31, 2016 - $0.23 per option) using the following assumptions:

Inputs used in the Black-Scholes model	2017	2016
Risk-free interest rate	0.97%	0.85%
Expected dividend yield	nil	nil
Expected volatility	78.00%	78.89%
Forfeiture rate	0.00%	0.00%
Expected option life	5.0	7.0

(Thousands of US dollars, unless otherwise noted)

The following tables summarize information related to the stock option plans:

	USD denominated options			CAD denominated options			
	Number of options		Weighted average exercise price (USD)		Number of options		WA exercise price (CAD)
Balance, December 31, 2015	1,270,600	$	3.96	$	111,000	$	2.28
Granted	-		-		3,500,000		0.32
Expired and cancelled	(1,191,600)		3.97		-		-
Forfeited	-		-		-		-
Balance, December 31, 2016	79,000	$	3.90	$	3,611,000	$	0.38
Granted	-		-		6,995,000		0.37
Expired and cancelled	(12,000)		5.10		(58,000)		2.43
Forfeited	-		-		(615,000)		0.37
Balance, December 31, 2017	67,000	$	3.68	$	9,933,000	$	0.36

Subsequent to year end, a further 828,0000 CAD denominated options have been forfeited.

USD denominated options				CAD denominated options			
Exercise price (USD)	Options outstanding	Options exercisable	Weighted average contractual life (years)	Exercise price (CAD)	Options outstanding	Options exercisable	Weighted average contractual life (years)
\$3.01 - \$4.00	32,000	32,000	0.7	\$0.30 - \$1.00	9,880,000	1,166,667	5.7
\$4.01 - \$5.00	35,000	35,000	0.9	\$1.01 - \$2.50	50,000	50,000	1.9
\$5.01 - \$5.10	-	-	-	\$2.51 - \$3.22	3,000	3,000	1.2
	67,000	67,000	0.8		$ 9,933,000	1,219,667	5.6

15. Related parties

Aggregate payroll expense

The aggregate payroll expense of employees and executive management of Serinus and its subsidiaries was:

	Years ended December 31,			
		2017		2016
Wages, salaries and benefits	$	3,250	$	7,903
Bonus		-		270
Severance		236		2,776
Share-based compensation [1]		691		85
Total compensation for key management personnel	$	4,177	$	11,034

[1] Represents the amortization of share-based compensation associated with the options granted in the consolidated financial statements.

Key management compensation

Key management personnel include Serinus' Board of Directors and members of the Executive Leadership Team (President & CEO, CFO, the former Executive Vice President & COO, Vice President Operations, Vice President Exploration and Vice President Investor Relations & Managing Director CEE). Transactions with key management personnel (including directors) are noted in the table below:

	Years ended December 31,			
		2017		2016
Wages, salaries and benefits	$	936	$	1,715
Bonus		-		114
Severance		236		2,202
Share-based compensation [1]		644		62
Total compensation for key management personnel	$	1,816	$	4,093

[1] Represents the amortization of share-based compensation associated with the options granted in the consolidated financial statements.

(Thousands of US dollars, unless otherwise noted)

Related party transactions

Nemmoco Petroleum Corporation ("Nemmoco") is a private company of which 37.5% is owned by Timothy M. Elliott, a former officer and director of the Company. Nemmoco provided certain personnel, general, accounting and administrative services to the Company at its offices in Dubai on a cost basis. With the changes to senior executives effective August 31, 2016, the contract with Nemmoco was terminated and the Company no longer has a presence in Dubai, therefore Nemmoco ceased to be a related party on September 1, 2016. For the year ended December 31, 2017, the fees totaled $nil (2016: $0.6 million).

Loon Energy Corporation ("Loon Energy") is a publicly traded Canadian corporation. Serinus and Loon Energy are related as they have the same principal shareholder with control over Serinus and significant influence over Loon Energy. Management and administrative services were provided by the management and staff of Serinus to Loon Energy until August 31, 2016 when the services agreement was terminated and an office lease rental agreement was entered into, which was then terminated effective February 15, 2017. For the year ended December 31, 2017, these fees totaled $2 thousand (2016: $9 thousand). As at December 31, 2017, Loon Energy owed $nil (December 31, 2016: $nil) to Serinus for these services. All related party transactions were at exchange amounts agreed to by both parties.

16. Other expenses

(i) Gain on disposition

During the second quarter of 2017, the Company sold all of its shares in an indirectly wholly-owned subsidiary, which held the Syrian production sharing agreement for a nominal amount. The disposed subsidiary had net liabilities of $2.2 million, comprised of accounts payables, which on disposition were presented net of proceeds as a gain on disposition in the statement of operations.

(ii) Well incident cost

In December 2017, during routine operation to bring the Moftinu 1001 well out of suspension in preparation for future production, an unexpected gas release occurred and subsequently ignited.

The Company incurred a total of $4.0 million to bring the well under control. Subsequent to year-end, the Company has submitted an interim insurance claim.

(iii) Transaction costs

Transaction costs include costs associated with the continuance of the Company from Alberta to Jersey, Channel Islands, and includes the legal, accounting and due diligence costs associated with listing its shares for trading on the Alternative Investment Market of the London Stock Exchange ("AIM").

17. Income taxes

Reconciliation of effective tax rate:

	Years ended December 31, 2017	2016
Loss before income taxes	$ (17,299)	$ (30,877)
Federal and provisional statutory rate	27.0%	27.0%
Expected income tax reduction	(4,671)	(8,337)
Non-deductible expenditures	1,153	303
Tax rate differences	1,594	215
Net change in tax attributes not recognized	3,417	4,463
Income tax expense (recovery)	$ 1,493	$ (3,356)

The blended corporate income tax rate effective during 2017 in Tunisia is approximately 50.0% (2016 - 50.0%).

(Thousands of US dollars, unless otherwise noted)

Movement in deferred income tax balances:

	December 31, 2015	Recovery/ (expense)	Other	December 31, 2016
PP&E and E&E assets	$ (29,935)	$ 10,285	$ -	$ (19,650)
Decomissioning provision	10,829	(6,265)	-	4,564
Losses carried forward	1,756	(1,298)	-	458
Other	112	635	571	1,318
Deferred income tax liability	$ (17,238)	$ 3,357	$ 571	$ (13,310)

	December 31, 2016	Recovery/ (expense)	Other	December 31, 2017
PP&E and E&E assets	$ (19,650)	$ 280	$ -	$ (19,370)
Decomissioning provision	4,564	6	-	4,570
Losses carried forward	458	(458)	-	-
Other	1,318	(18)	-	1,300
Deferred income tax liability	$ (13,310)	$ (190)	$ -	$ (13,500)

Deferred income tax assets are recognized to the extent that the realization of the related tax benefit through future tax profits is probable.

Unrecognized deferred tax assets

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

	As at December 31, 2017	2016
PP&E and E&E assets	$ 13,071	$ 8,845
Decomissioning provision	9,995	8,351
Share issuance costs	845	640
Non-capital losses carried forward and other	95,754	89,806
	$ 119,665	$ 107,642

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

The Company has Canadian non-capital losses of $61.1 million (2016 - $57.1 million) that expire between 2028 and 2036, Cyprus tax losses of $13.0 million (2016 - $14.6 million) that expire between 2018 and 2023 of which $1.7 million expired in 2017, Tunisian losses of $10.0 million that expire in four years and $6.7 million have no expiry date (2016 - $5.7 and $6.5 million respectively), and Romanian losses of $8.3 million (2016 - $7.7 million) that expire after seven years between 2020 to 2024.

The Company has temporary differences associated with its investments in its foreign subsidiaries. The Company has not recorded any deferred tax liabilities in respect to these temporary differences as they are not expected to reverse in the foreseeable future.

The Company operates in multiple jurisdictions with complex tax laws and regulations, which are evolving over time. The Company has taken certain tax positions in its tax filings and these filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management.

18. Fair value, financial instruments and risk management

Fair value

The Company's financial assets and liabilities are comprised of cash and cash equivalents, restricted cash, investments, accounts receivable, accounts payable and accrued liabilities and long-term debt.

The estimated fair values of the financial instruments have been determined based on the Company's assessment of available market information. To estimate fair values of its financial instruments, Serinus uses quoted market prices when available, or third-party models and valuation methodologies that use observable market data. These estimates may not necessarily be indicative of the amounts that could be realized or settled in a market transaction.

(Thousands of US dollars, unless otherwise noted)

Fair value of financial instruments:
There are three levels of fair value by which a financial instrument can be classified:

- Level 1 - fair value measurements are based on unadjusted quoted market prices.
- Level 2 - fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. Inputs other than quoted prices that are observable for the asset and liability either directly or indirectly such as quoted forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace; and
- Level 3 - fair value measurements rely on inputs that are not based on observable market data.

The fair values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities. The Company's investment was classified as fair value through profit and loss and was an investment in a public company that is quoted on the TSX (level 1 fair value).

The fair value of the long-term debt approximates its carrying value as it is at a market rate of interest and accordingly the fair market value approximates the carrying value (level 2 fair value). Serinus does not have any derivative financial instruments at December 31, 2017 (2016 – nil).

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

Risk management

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

Market risk is the risk that the fair value of future cash flows of financial assets or financial liabilities will fluctuate due to movements in market prices. Market risk is comprised of commodity price risk, foreign currency risk and interest rate risk, as well as credit and liquidity risks.

Commodity price risk

The Company is exposed to commodity price risk in fluctuations in the price of oil, natural gas and natural gas liquids. In Tunisia, oil prices are based on the terms of the Shell contract which reflects the market price of Brent crude oil. Brent averaged $54.25 per bbl in 2017, $43.55 per bbl in 2016, an increase of 25%. The Company has no commodity hedge program in place which could limit exposure to price risk.

Foreign currency exchange risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar, Polish zloty, Romanian leu, Tunisian dinar, the Euro and the United States dollar. At December 31, 2017, the Company's primary currency exposure related to Canadian dollar ("CAD"), Romanian LEU ("LEU"), and Tunisian dinar ("TND") balances. The following table summarizes the Company's foreign currency exchange risk for each of the currencies indicated:

	As at December 31, 2017			As at December 31, 2016		
	CAD	LEU	TND	CAD	LEU	TND
Cash and cash equivalents	4,130	1,591	12	113	58	1,505
Accounts receivable	82	5,814	2,704	136	801	1,497
Income tax receivable	-	3	2,852	-	3	5,959
Restricted cash	1,378	-	-	1,462	-	-
Prepaid expenses	43	171	328	(92)	93	410
Accounts payable and accrued liabilities	(153)	(10,371)	(6,956)	(153)	(508)	(6,004)
Net foreign exchange exposure	5,480	(2,792)	(1,060)	1,466	447	3,367
US$ equivalent at year end exchange rate	$ 4,368	$ (718)	$ (427)	$ 1,092	$ 104	$ 1,458

Based on the net foreign exchange exposure at the end of the year, if these currencies 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 the following amounts:

(Thousands of US dollars, unless otherwise noted)

	As at December 31,	
Impact on net earnings (loss)	2017	2016
Canadian dollar	$ 437	$ 109
Romania leu	(72)	10
Tunisian dinar	(43)	146
Total	$ 322	$ 265

Interest rate risk

The Company's interest rate risk arises from the floating rate on the Senior Loan and Convertible Loan. The Company had locked in the interest rate on the $20.0 million Senior Loan at a rate of 6.9% for a two-year period from September 30, 2014 to September 30, 2016 at which time it reverted back to LIBOR plus 6%. The convertible loan is based on LIBOR and has a portion based on incremental revenue with a floor of 8% and ceiling of 17%.

The Company's net earnings are impacted by changes in LIBOR interest rates, if interest rates applicable to the long-term debt increased by 1%, assuming the amount of debt remains unchanged, the impact to net earnings (loss) before income taxes for the year ended December 31, 2017 would be $303 thousand (December 31, 2016 - $250 thousand).

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 and cash equivalents and restricted cash.

The Company's accounts receivable consists of receivables from other joint venture partners that are anticipated to be applied against future capital expenditures, receivables for revenue in Tunisia, commodity taxes recoverable in Romania and 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.

Management believes that the Company's exposure to Tunisian credit risk is manageable, as commodities sold are under contract or payment within 30 days. Oil is sold with reputable parties and collection is prompt based on the individual terms with the parties. At December 31, 2017, the Company had $nil (December 31, 2016 - nil) of receivables that were considered past due (over 90 days outstanding). For the year ended December 31, 2017, the Company has three customers with sales representing 54%, 24%, 22% of total sales (for year ended December 2016 – four customers representing 51%, 19%, 22%, and 8%).

Management has no formal credit policy in place for customers 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. The Company does not require collateral in respect of financial assets.

Liquidity risk

Liquidity risk is the risk that Serinus will not be able to pay financial obligations when due. 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. The Company mitigates this risk through monitoring 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. Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required to retain concession licenses, farm-out arrangements and securing new equity or debt capital.

Timing of cash outflows related to commitments including debt follow the schedule provided under note 20 commitments and contingencies. All outflows are anticipated to follow the schedule for payment. The risk that payment could occur significantly earlier may arise if a loan covenant is violated and an acceptable arrangement could not be made, in which case the bank could act on its security for that particular loan. The maximum exposure to liquidity risk in this case is represented by the carrying amount of that loan.

(Thousands of US dollars, unless otherwise noted)

19. Capital management

	Year ended December 31, 2017	2016
Long-term debt	$ 31,261	$ 30,699
Shareholders' equity	3,704	3,750
Total capital resources	$ 34,965	$ 34,449

Consistent with prior years, the Company manages its capital structure to maximize financial flexibility making adjustments in light of changes in economic conditions and risk characteristics of the underlying assets. Further, each potential acquisition and investment opportunity is assessed to determine the nature and total amount of capital required together with the relative proportions of debt and equity to be deployed. The Company does not presently utilize any quantitative measures to monitor its capital.

Given the dramatic decrease in commodity prices and the sale of the Ukrainian operations, the Company's equity has been severely impacted. In early 2017, the Company raised CAD$25.2 million in equity through the issuance of 72 million common shares as a step towards strengthening its capital structure. Effective October 2017, the Company completed the amended Loan Agreements with EBRD with respect to the terms of the Tunisia Loan Agreements.

20. Commitments and contingencies

Future payments for the Company's commitments are below. A commitment is an enforceable and legally binding agreement to make a payment in the future for the purchase of goods and services. These items exclude amounts recorded in the consolidated balance sheets.

	Within 1 Year	2-3 Years	4-5 Years	Beyond 5 Years	**Total**
Operating leases	$ 653	$ 1,037	$ 7	$ -	$ 1,697
Gas plant-Romania [1]	1,983	-	-	-	1,983
Long-term debt [2]	-	11,991	13,181	6,591	31,763
Total	$ 2,636	$ 13,028	$ 13,188	$ 6,591	$ 35,443

[1] Contractual obligation on the construction of the gas processing facility.

[1] Long-term debt obligations presented exclude deferred financing costs and include only current accrued interest.

The Company's commitments are all in the ordinary course of business and include the work commitments for Tunisia and Romania.

Tunisia

The Tunisian state oil and gas company, Enterprise Tunisienne D'Activities Petroliers ("ETAP"), has the right to back into up to a 50% working interest in the Chouech Es Saida concession if, and when, the cumulative crude oil sales, net of royalties and shrinkage, from the concession exceeds 6.5 million barrels. As at December 31, 2017 and December 31, 2016 cumulative crude oil sales, net of royalties and shrinkage was 5.2 million barrels.

Romania

The work obligations pursuant to the Phase 3 extension, approved on October 28, 2016, include the drilling of two wells, and, at the Company's option, either the acquisition of 120 km^2 of new 3D seismic data or drill a third well. The two firm wells must be drilled to minimum depths of 1,000 and 1,600 metres respectively, and if so elected, the third well to a depth of 2,000 metres. The term of the Phase 3 extension is for three years, expiring on October 28, 2019. On May 5, 2017, the Company signed a letter of guarantee for up to $12 million to cover the necessary expenses for the fulfillment of the minimal commitments for the Phase 3 extension. This guarantee was made net of any amounts already spent by the Company since the time of the extension's approval.

The Company signed an engineering, procurement, construction and commissioning contract ("EPCC") with Confind S.R.L., a Romanian company, for the construction of a gas processing facility and associated flowlines and pipelines on the Satu Mare concession. As at December 31, 2017, a balance of $2.0 million is remaining on this contract.

Office Space

The Company has a lease agreement for office space in Calgary, Canada which expires on November 30, 2020 and an office lease agreement in Bucharest, Romania, which expires on August 27, 2020. Operating leases on office buildings are in the ordinary course of business. The Company has the option to renew or extend the leases on its office buildings with new lease terms to be based on current market prices.

(Thousands of US dollars, unless otherwise noted)

21. Disposition of the Ukrainian operations

On February 8, 2016, Serinus closed the sale of its 70% shareholding in KUB-GAS Holdings Limited ("KUB Holdings"), which held a 100% interest in KUB-Gas LLC ("KUB-Gas"), a Ukrainian company, representing all of Serinus' interests and operations in Ukraine. Upon the closing Serinus received total cash consideration of $33.2 million including all working capital and intercompany adjustments. Net proceeds of the sale were used to repay outstanding indebtedness of $11.2 million of long-term debt plus $0.4 million of accrued interest under the Romanian funding with EBRD, and $7.4 million of long-term debt plus $0.2 million of accrued interest under the Tunisia funding with EBRD. The Ukraine operation was presented as a discontinued operation until its sale in 2016. The net loss from discontinued operations comprised the results of operations until the date of close of the transaction plus the loss resulting from disposition of the Ukraine segment.

Net earnings from discontinued operations	Year ended December 31, 2016
Oil and gas revenue	$ 5,416
Royalty expense	(1,492)
Oil and gas revenue, net of royalties	3,924
Operating expenses:	
Production expenses	(396)
General and administrative	(3)
Depletion and depreciation	(599)
Finance income/(expense)	
Interest and other	78
Interest expense and accretion	(3)
Foreign exchange loss	(105)
Earnings before tax	2,896
Current tax expense	(513)
Net earnings from discontinued operations	$ 2,383
Loss on disposal (net of transaction costs)	(33,040)
Loss for the years ended	$ (30,657)

Other comprehensive loss from foreign currency translation loss of $2.3 million from foreign operations is attributable entirely to the Ukraine segment.

Cash flows from discontinued operations	Year ended December 31, 2016
Net cash from operating activities	$ 869
Net cash used in investing activities	(5,403)
Net cash used in financing activities	(557)
Effect of exchange rate changes on cash	(132)
Change in cash	(5,223)
Cash and cash equivalents, beginning of year	5,223
Cash and cash equivalents, end of year	$ -
Supplemental cash flow information:	
Cash taxes paid	$ -
Dividends paid to non-controlling interests during the year	$ -

Effect of disposal on the financial position of the Company		2016
Cash and cash equivalents	$	(4,921)
Accounts receivable		(4,403)
Income tax receivable		(1,739)
Prepaids and other		(704)
Crude oil inventory		(1,921)
Restricted cash		(2,437)
Property, plant and equipment		(37,727)
Exploration and evaluation		(4,402)
Accounts payable and accrued liabilities		6,647
Current tax payable		329
Deferred tax liability		3,168
Asset retirement obligation		243
Net assets and liabilities	$	(47,867)
Consideration received in cash	$	33,244
Transaction costs		(482)
Non-controlling interest		16,253
Accumulated other comprehensive loss		(34,188)
Loss on disposal	$	(33,040)
Proceeds net of transaction costs	$	32,764
Cash disposed		(4,921)
Net cash inflow	$	27,843

22. Segment information

The Company's reportable segments are organized by geographical areas and consist of the exploration, development and production of oil and natural gas in Romania and Tunisia, and prior to disposition in February 2016, Ukraine. The Corporate segment includes all corporate activities and items not allocated to reportable operating segments and therefore includes Brunei.

(Thousands of US dollars, unless otherwise noted)

As at December 31, 2017	**Romania**	**Tunisia**	**Corporate**	**Total**
Total assets	$ 32,353	$ 75,852	$ 6,766	$ 114,971
For the year ended December 31, 2017				
Oil & gas revenues, net of royalties	$ -	$ 5,889	$ -	$ 5,889
Operating expenses				
Production expenses	-	5,207	43	5,250
General and administrative	-	-	3,005	3,005
Share-based compensation	-	-	691	691
Transaction costs	-	-	705	705
Gain on disposition of assets	-	-	(2,179)	(2,179)
Well incident expense	4,047	-	-	4,047
Depletion and depreciation	5	1,722	139	1,866
Change in ARO provision	-	1,155		1,155
Impairment expense	-	4,981	-	4,981
Finance expense				
Unrealized loss on investments	-	-	13	13
Interest expense and accretion	5	679	2,919	3,603
Foreign exchange loss (gain)	44	201	(194)	51
Loss before income taxes	$ (4,101)	$ (8,056)	$ (5,142)	$ (17,299)
Current income tax expense	-	1,301	2	1,303
Deferred income tax expense	-	190	-	190
Net loss	$ (4,101)	$ (9,547)	$ (5,144)	$ (18,792)
Capital expenditures	$ 8,450	$ 402	$ -	$ 8,852

As at December 31, 2016	**Romania**	**Tunisia**	**Ukraine** [(1)]	**Corporate**	**Total**
Total assets	$ 20,536	$ 81,010	$ -	$ 3,290	$ 104,836
For the year ended December 31, 2016					
Oil & gas revenues, net of royalties	$ -	$ 13,975	$ 3,924	$ -	$ 17,899
Operating expenses					
Production expenses	-	9,279	396	79	9,754
General and administrative	2	-	3	8,318	8,323
Share-based compensation	-	-	-	85	85
Transaction costs	-	-	-	97	97
(Gain) loss on disposition of assets	-	-	33,040	-	33,040
Depletion and depreciation	5	5,070	599	183	5,857
Impairment expense	-	16,754	-	-	16,754
Finance expense					
Unrealized loss on investments	-	-	-	8	8
Interest expense and accretion	5	770	(75)	3,480	4,180
Foreign exchange (gain) loss	(18)	497	105	238	822
Earnings (loss) before income taxes	$ 6	$ (18,395)	$ (30,144)	$ (12,488)	$ (61,021)
Current income tax expense	-	-	513	1	514
Deferred income tax (recovery)	-	(3,357)	-	-	(3,357)
Net earnings (loss)	$ 6	$ (15,038)	$ (30,657)	$ (12,489)	$ (58,178)
Capital expenditures	$ 1,740	$ 1,911	$ -	$ -	$ 3,651

[(1)] Ukraine segment w as disposed in 2016 and w as presented as discontinued operations for the year ended December 31, 2016.

23. Subsequent Event

On March 7, 2018, the Company's shareholders voted in favour of continuing the Company to Jersey, Channel Islands. The decision of the Board to proceed with the continuance will be timed to coincide with the anticipated approval to admit all issued share capital to trading on the AIM market of the London Stock Exchange. Upon completion of the Continuance and the Admission, the Company intends to delist from the Toronto Stock Exchange but maintain its listing on the Warsaw Stock Exchange.