SERINUS ENERGY INC.
CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
US dollars in 000's

SERINUS ENERGY

Management's Responsibility Statement

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

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

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

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

"Signed" Timothy M. Elliott	*"Signed" Tracy H.Heck*
Timothy M. Elliott Chief Executive Officer	Tracy H. Heck, CA Chief Financial Officer

March 18, 2015

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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, 2014 and December 31, 2013, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. 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, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 1 to the consolidated financial statements, which describes the potential impact of the current political, social and security situation in Ukraine on the consolidated financial statements. The events referred to in Note 1 could adversely affect Serinus Energy Inc.'s results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

KPMG LLP

Chartered Accountants

March 18, 2015
Calgary, Canada

Serinus Energy Inc.
Consolidated Statement of Financial Position
(Stated in thousands of US dollars)

		December 31, 2014	December 31, 2013
Assets			
Current			
Cash and cash equivalents		$ 11,096	$ 19,916
Accounts receivable		19,223	6,806
Income taxes receivable		3,758	-
Prepaids and other		2,283	7,605
Crude oil inventory		-	1,296
Restricted cash	(Note 6)	6,697	1,416
Total current assets		43,057	37,039
Investments	(Note 7)	125	155
Property, plant and equipment	(Note 8)	196,962	263,445
Exploration and evaluation	(Note 9)	19,323	11,834
Total Assets		$ 259,467	$ 312,473
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 46,996	$ 33,111
Income taxes payable		722	4,825
Convertible note payable	(Note 12)	-	15,000
Current portion of long-term debt	(Note 13)	5,103	4,026
Asset retirement obligation	(Note 14)	3,209	3,209
Total current liabilities		56,030	60,171
Asset retirement obligation	(Note 14)	27,581	25,780
Other provisions	(Note 15)	1,148	1,148
Deferred tax liability	(Note 16)	36,514	46,800
Long-term debt	(Note 13)	32,204	8,030
Total liabilities		153,477	141,929
Shareholders' Equity			
Share capital	(Note 17)	$ 344,479	$ 344,403
Contributed surplus		20,936	18,062
Accumulated other comprehensive loss		(24,145)	(269)
Deficit		(254,522)	(224,021)
Equity attributable to owners of the company		86,748	138,175
Non-controlling interest	(Note 18)	19,242	32,369
Total shareholders' equity		105,990	170,544
Total liabilities and shareholders' equity		$ 259,467	$ 312,473
Commitments	(Note 19)		
Subsequent Events	(Note 25)		

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

"Signed"
TIMOTHY M. ELLIOTT, DIRECTOR,
PRESIDENT AND CEO

Serinus Energy Inc.
Consolidated Statement of Operations and Comprehensive Loss
(Stated in thousands of US dollars, except per share data)

		Year ended December 31, 2014	2013
Oil and gas revenue		$ 164,327	$ 146,732
Royalty expense		(48,607)	(34,496)
Oil and gas revenue, net of royalties		115,720	112,236
Operating expenses			
Production expenses		(27,206)	(20,926)
General and administrative		(10,486)	(12,067)
Transaction costs	(Note 11)	(1,533)	(4,487)
Stock based compensation	(Note 17(e))	(2,897)	(2,927)
Gain on disposition		834	-
Depletion and depreciation	(Note 8)	(29,747)	(27,782)
Asset impairment	(Note 10)	(54,926)	(83,053)
Total operating expenses		(125,961)	(151,242)
Finance income/(expenses)			
Interest and other income		2,359	590
Unrealized loss on investments	(Note 7)	(30)	(145)
Interest expense and accretion		(5,702)	(4,409)
Foreign exchange loss	(Note 21)	(9,002)	(1,174)
Total finance expenses		(12,375)	(5,138)
Loss before tax		(22,616)	(44,144)
Current tax expense	(Note 16)	(9,442)	(16,025)
Deferred tax recovery	(Note 16)	8,097	2,643
Net loss		(23,961)	(57,526)
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Foreign currency translation loss of foreign operations	(Note 21)	(34,108)	(1,445)
Total comprehensive loss		$ (58,069)	$ (58,971)
Loss attributable to:			
Common shareholders		(30,501)	(68,682)
Non-controlling interest	(Note 18)	6,540	11,156
Loss for the year		$ (23,961)	$ (57,526)
Loss per share attributable to common shareholders			
- basic and dilutive	(Note 17(c))	$ (0.39)	$ (1.07)
Total comprehensive loss attributed to:			
Common shareholders		(54,377)	(69,694)
Non-controlling interest	(Note 18)	(3,692)	10,723
Total comprehensive loss for the year		$ (58,069)	$ (58,971)

(Stated in thousands of US dollars, except as noted)

		Year ended December 31, 2014	2013
Net Earnings		$ (23,961)	$ (57,526)
Items not involving cash:			
Depletion and depreciation	(Note 8)	29,747	27,782
Impairment of assets	(Note 10)	54,926	83,053
Gain on disposition		(834)	-
Interest on debt settled in shares		-	783
Accretion on asset retirement obligation	(Note 14)	852	462
Stock based compensation	(Note 17(e))	2,897	2,927
Unrealized (gain) loss on investments	(Note 7)	30	145
Unrealized foreign exchange loss	(Note 21)	7,405	387
Deferred income tax recovery	(Note 16)	(8,097)	(2,643)
Expenditures on decommissioning liabilities	(Note 14)	(145)	(296)
Interest and other income		(2,359)	(590)
Interest expense		4,850	3,947
		65,311	58,431
Changes in non-cash working capital		1,925	117
		67,236	58,548
Financing:			
Issuance of long-term debt, net of issuance costs	(Note 13)	30,000	4,390
Repayment of long-term debt	(Note 13)	(5,281)	(13,580)
Dividends paid to non-controlling interest	(Note 18)	(9,435)	(9,750)
Issuance of convertible notes payable	(Note 12)	-	17,000
Repayment of convertible debentures	(Note 12)	(15,000)	-
Issuance of shares		53	-
Interest received		298	578
Interest paid		(3,880)	(5,215)
		(3,245)	(6,577)
Investing:			
Property and equipment expenditures	(Note 8)	(52,609)	(29,505)
Restricted cash movement	(Note 6)	(5,281)	163
Exploration and evaluation expenditures	(Note 9)	(13,868)	(46,055)
Business acquisition cash acquired	(Note 5)	-	2,330
Changes in non-cash working capital related to investing		(5,482)	5,658
		(77,240)	(67,409)
Effect of exchange rate changes on cash		4,429	(199)
Change in cash		(8,820)	(15,637)
Cash and cash equivalents, beginning of year		19,916	35,553
Cash and cash equivalents, end of year		$ 11,096	$ 19,916
Supplemental cash flow information			
Cash taxes paid		$ (16,092)	$ (15,469)

Serinus Energy Inc.
Consolidated Statement of Changes in Equity
(Stated in thousands of US dollars, except share and per share data)

	Common Shares						
	Number of shares	Amount	Contributed surplus	Cumulative translation adjustment	Non-controlling interest	Deficit	Total
Balances, December 31, 2012	48,175,673	$ 231,516	$ 15,135	$ 742	$ 31,396	$ (155,339)	$ 123,450
Issued on conversion of convertible debt	3,183,268	13,369	-	-	-	-	13,369
Issued on acquisition of Winstar (Note 5)	27,252,500	99,518	-	-	-	-	99,518
Stock-based compensation (Note 17)	-	-	2,927	-	-	-	2,927
Foreign currency translation adjustment on foreign operations	-	-	-	(1,011)	(433)	-	(1,444)
Dividends declared to non-controlling interest (Note 18)	-	-	-	-	(9,750)	-	(9,750)
Net earnings	-	-	-	-	11,156	(68,682)	(57,526)
Balances, December 31, 2013	78,611,441	$ 344,403	$ 18,062	$ (269)	$ 32,369	$ (224,021)	$ 170,544
Issued on exercise of stock options (Note 17)	18,500	76	(23)	-	-	-	53
Stock-based compensation (Note 17)	-	-	2,897	-	-	-	2,897
Foreign currency translation adjustment on foreign operations	-	-	-	(23,876)	(10,232)	-	(34,108)
Dividends declared to non-controlling interest (Note 18)	-	-	-	-	(9,435)	-	(9,435)
Net earnings	-	-	-	-	6,540	(30,501)	(23,961)
Balances, December 31, 2014	78,629,941	$ 344,479	$ 20,936	$ (24,145)	$ 19,242	$ (254,522)	$ 105,990

1. Reporting entity

The consolidated financial statements for Serinus Energy Inc. ("Serinus" or "the Company") include the accounts of Serinus and its controlled subsidiaries as at and for the years ended December 31, 2014 and 2013. Serinus is principally engaged in the exploration for and development of oil and gas properties in Ukraine, Tunisia, Brunei and Romania. These financial statements reflect only the Company's proportionate interest in such activities except for operations in Ukraine, which are consolidated due to the Company holding a 70% controlling ownership interest in KUB-Gas LLC ("KUB Gas"), a Ukrainian company.

Serinus is incorporated under the Business Corporations Act (Alberta, Canada) and is headquartered 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 50.8% investment in Serinus and is the ultimate parent of Serinus.

(a) Basis of consolidation

Serinus has two direct wholly-owned subsidiaries, Serinus Holdings Limited ("Serinus Holdings") 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 hold the Company's interests in Brunei Block L, Loon Latakia Limited which holds the Company's interest in Syria Block 9 and KOV Borneo Limited which holds the Company's interest in Brunei Block M. Serinus Holdings also owns 70% of KUB-GAS Holdings Limited ("KUB Holdings"), which holds a 100% interest in KUB-Gas, representing Ukrainian operations.

Serinus controls KUB Holdings and under IFRS must consolidate the results of KUB Holdings and KUB-Gas into its financial statements. The Company reports 100% of the revenues, royalties and production and other expenses for KUB Holdings and KUB-Gas. Similarly, the Company reports 100% of the assets and liabilities of KUB Holdings and KUB-Gas on its consolidated statement of financial position. The 30% share of the net assets and earnings of KUB Holdings and KUB-Gas attributable to the minority shareholder is presented by way of a one line entry as non-controlling interest ("NCI").

Through Winstar, Serinus has one wholly owned subsidiary Winstar B.V., which in turn owns 100% of Winstar Tunisia B.V. ("Winstar Tunisia"), 99.8% of Winstar Magyarorszag KFT ("Winstar Hungary") and 99.9995% of Winstar Satu Mare SRL ("Winstar Romania"). Winstar Tunisia owns the remaining 0.2% and 0.0005% of Winstar Hungary and Winstar Romania respectively.

(b) Ukraine operational update

Ukraine's political, economic and security situation has deteriorated significantly since late 2013 with violent conflicts in the capital city of Kyiv in early 2014, the removal of the former president and changes to governing bodies, a depletion of the country's foreign currency reserves, downgrading of sovereign debt ratings and devaluation of the currency. The political and economic situation has been further exacerbated by the violent conflict in eastern Ukraine where fighting continues between Ukrainian military forces and opposing rebel factions.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The ability to make reliable estimates is further complicated when the political, economic and security situation results in an unstable environment. Management has based its estimates with respect to the Company's operations in Ukraine based on information available up to the date these financial statements were approved by the board of directors. However, the situation in Ukraine is unstable and significant changes can occur which could materially impact the estimates made in these financial statements.

The significant impacts of the current situation in Ukraine on the Company and the financial statements are as follows:

(i) Operations

The Company has five concessions in Ukraine all of which are located in the eastern portion of the country. The Company's production of natural gas has not been significantly impacted by the current situation in Ukraine and production levels increased in 2014 compared to the prior year. The development of the Company's oil and gas properties has been impacted by the security situation in eastern Ukraine as drilling and exploration activity was temporarily suspended in the third quarter of 2014. The Company completed the drilling of the M-22 on the Makeevskoye license in the fourth quarter of 2014.

At this time, no additional exploration and development projects are planned for 2015 beyond the testing, completion and tie-in of the M-22 well and a field compression project on the Olgovskoye field. The Company may consider additional capital expenditures in 2015 subject to the availability of cash flow from operations and the security situation. The Company may also resume drilling of the NM-4 exploration well that is required to be drilled by December 29, 2015 to retain the North Makeevskoye license. However, management is investigating extending the drilling deadline due to the current security and economic circumstances. Should the Company not be able to drill the NM-4 well or obtain an extension, the North Makeevskoye license may be subject to relinquishment. In the longer term, should the Company not be able to recommence active exploration and development activity, production and reserve volumes could be negatively impacted.

The royalty rates applied to the Company's production have increased significantly as a result of the government of Ukraine's actions to increase state revenues. In August 2014, the royalty rate on natural gas and condensate production increased to 55% and 45% respectively, from 28% and 42%, effective August 1, 2014 until January 1, 2015. The new law had a provision for a "lowering coefficient" on new wells drilled after August 1, 2014, which reduced royalties on new wells to 55% of nominal rates (i.e. the effective rate of new wells is 30.25% for gas and 24.75% for condensate). The increase was set to expire January 2015, however, the Ukrainian government has permanently enacted the higher rates.

(ii) Impairment of long-lived assets (see Note 10)

Two of the Company's concessions, the Vergunskoye and Krutogorovskoye fields, are located inside the area that is currently controlled by the rebel factions opposing the government of Ukraine. The carrying value of these assets of approximately $5.6 million has been impaired in 2014.

The Company completed an impairment test on the remaining three oil and gas concessions in Ukraine. No impairment was recorded on these cash generating units based on the external reserve report discounted using a pre-tax discount rate of 29.8%. The pricing used in the external reserve report was estimated based on the price the Company has received in prior years and forecasted commodity prices. The current environment in Ukraine has had a negative impact on the price the Company receives for its production and the impact of the current situation in Ukraine on future prices is difficult to estimate.

Finally, the Company's remaining oil and gas concessions which have a carrying value of $68.4 million at December 31, 2014 are located in eastern Ukraine. The area controlled by the rebel factions is currently approximately 65 kilometers from the most eastern part of the Company's remaining concessions.

(iii) Dividends (see Note 6 and 22)

On September 22, 2014, the National Bank of Ukraine enacted legislation that prohibits several types of foreign exchange transactions, including the ability of KUB Gas to pay dividends to shareholders. The restrictions were extended to December 2014 and were extended to March 3, 2015. In March 2015, the restrictions were then further extended to June 3, 2015.

As at December 31, 2014, $5.6 million of cash and restricted cash is held in Ukraine.

(iv) Foreign currency (see also note 21 and 25)

The value of the Ukrainian hryvnia to the US dollar has rapidly deteriorated since the escalation of the situation in Ukraine arose in 2013. The exchange rate has decreased from 8.16 (Ukraine hryvnia to the US dollar) at December 31, 2013 to 16.28 at December 31, 2014 and 23.52 as of the date of these financial statements.

The Company is exposed to the Ukrainian hyrvnia principally in three ways:

US denominated working capital and debt balances within KUB Gas

At December 31, 2014, the Company had a loan with EBRD of $2.4 million and a loan from its parent entity of $1.3 million denominated in US dollars within KUB Gas. The amount of Ukrainian hyrvnia, which is the currency in which the Company's production is sold, needed to settle these balances as they come due increases as the local currency devalues. These foreign exchange gains and losses are recorded in the statement of operations.

Cash repatriated from Ukraine

If funds can be repatriated from Ukraine in the form of dividends or other means, the value of the funds, once converted to US dollars, is eroded as the local currency devalues. The US dollar equivalent of the funds generated in Ukraine has been significantly reduced due to the devaluation of the hryvnia.

Foreign currency translation

The functional currency of the Company's Ukrainian operations is the hyrvnia. As such, the financial statements of KUB Gas are translated into US dollars at the period end exchange rate with exchange gains and losses included in other comprehensive income. These gains and losses are non-cash. The translation loss in 2014 was $34 million as a result of the devaluation of the hyrvnia.

Management continues to proactively manage the Company's operations in Ukraine in response to the current political, economic and security situation and works to reduce the risks on the Company's operations. However, operating in Ukraine in the current environment has increasing challenges. As the situation in Ukraine changes, it may adversely impact assumptions used to prepare the financial statements. Changes in assumptions are recognized in the financial statements prospectively.

2. Basis of preparation

(a) Statement of compliance

The audited consolidated financial statements were prepared in accordance with international financial reporting standards ("IFRS") and were authorized for issuance by the Board of Directors on March 18, 2015.

(b) Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis except for certain financial instruments which are measured at fair value.

(c) Functional and presentation currency

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

(d) Recent accounting pronouncements

In July 2014, the IASB issued IFRS 9, *Financial Instruments* to replace IAS 39 which provides a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard is effective for the Company for annual periods beginning on January 1, 2018, with required retrospective application and early adoption permitted. The adoption of the standard is not expected to have a material impact on the Company's annual consolidated financial statements.

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" to replace IAS 18 which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for the Company for annual periods beginning on January 1, 2017, with required retrospective application and early adoption permitted. The extent of the impact of adoption of the standard has not yet been determined.

3. Significant accounting policies

Serinus has consistently applied the accounting policies set out below to all periods presented in these consolidated financial statements, except for the change below:

Serinus has revised its presentation of interest received and paid on its Statement of Cash Flows to be shown under financing versus operating activities. The Company believes this change provides more relevant and reliable information, aligns with its peers and presents operating cash flow regardless of how it is financed. The change to presentation has decreased cash used in financing by $3.6 million and increased operating cash generated by $3.6 million for the year ended December 31, 2014 (2013 - $4.6 million).

(b) Principles of consolidation

The consolidated financial statements include the accounts of Serinus and all of its controlled subsidiaries. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement and has ability to affect returns through its power over the entity. The financial statements of subsidiaries are prepared for the same reporting period and using consistent accounting policies.

Many of the Company's oil and gas activities involve jointly owned assets. The consolidated financial statements include the Company's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated upon consolidation.

(c) Business combinations and goodwill

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of operations. Generally, acquisitions of exploration and evaluation assets do not meet the definition of a business. The Company has no goodwill.

(d) 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.

(e) Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign currency translation

In preparing the Company's consolidated financial statements, the financial statements of each entity are translated into U.S. dollars, the functional currency of Serinus and its subsidiaries with the exception of KUB-Gas, which uses the Ukrainian Hryvnia as its functional currency. The assets and liabilities of the foreign operation that does not have a functional currency of U.S. dollars, KUB Gas, are translated into U.S. dollars at exchange rates at the balance sheet date. Revenues and expenses of foreign operations are translated into U.S. dollars using foreign exchange rates that approximate those on the date of the underlying transaction. Foreign exchange differences are recognized in Other Comprehensive Income.

(f) Revenue recognition

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

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

(g) Finance income and expenses

Finance expense comprises of interest expense on borrowings, accretion of the asset retirement provision and accretion of transaction costs incurred on debt.

Borrowing costs incurred on exploration and evaluation assets are expensed as incurred. Borrowing costs incurred on debt specifically related to the construction of qualifying assets, if any, in the development stage will be capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate that will be used to determine the amount of borrowing costs to be capitalized will be the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

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

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

(h) Income tax

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

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

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

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

(i) Cash and cash equivalents

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

(j) Inventory

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

(k) Financial instruments

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

(i) Financial assets and liabilities at fair value through profit or loss

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

(ii) Financial assets and liabilities at amortized cost

Subsequent to 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, convertible note payable and long-term debt.

(iii) Impairment of financial assets

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

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

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

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

(l) Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement

Exploration and evaluation ("E&E") expenditures:

Pre-license costs are recognized in the statement of operations as incurred.

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

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

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

Development and production costs:

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

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

(ii) Subsequent costs

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

(iii) Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

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 10% to 30%. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(iv) 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.

(m) Provisions

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

(i) Asset retirement obligations

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

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

(ii) Onerous contracts

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

(n) 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.

(o) 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.

(p) Stock 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 and is recognized over the vesting period of the option with a corresponding increase recorded to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(q) 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 period. 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 to employees. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

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:

(a) 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, 2014 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 and economic conditions. As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices and economic conditions. Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions 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.

(b) 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.

(c) 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.

(d) 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.

(e) Asset retirement obligation

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

(f) Deferred taxes

Estimates and assumptions are used in the calculation of deferred 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. 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 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.

(Stated in thousands of US dollars, except as noted)

(g) Stock 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.

5. Acquisition of Winstar Resources Ltd.

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

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

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

The estimated fair value of property, plant and equipment was determined using both internal estimates and an independent reserve evaluation. The estimated fair value of accounts receivable acquired was $9.5 million and the Company expected to collect 100% of this amount. The deferred tax liability was determined based on applying the estimated effective tax rate for each concession to the difference between the book and tax basis of the net assets acquired. The long term asset retirement obligation was determined using the Company's estimated timing and costs to remediate and abandon wells and facilities. An inflation rate of approximately 1% and a discount rate of approximately 3% were used. Other provisions acquired include $1.3 million related to a right to audit from counterparties arising in the normal course of business for which a provision is made to reflect management's best estimate of eventual settlement.

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

(Stated in thousands of US dollars, except as noted)

6. Restricted cash

	As at December 31, 2014	2013
Cash held in Ukraine [1]	$ 5,073	$ -
Standby letter of credit [2]	1,624	1,416
Total	$ 6,697	$ 1,416

(1) These funds represent dividends that are being held in Ukraine due to currency controls.
(2) As part of the 2013 Winstar Acquisition, the Company has an irrevocable standby letter of credit issued by a Canadian chartered bank of $1.4 million plus cash on deposit of $0.2 million, as required to meet future abandonment obligations existing on certain oil and gas properties in Canada.

The fair value of restricted cash approximates the carrying value.

7. Investment

The Company holds a 1.1% shareholding interest in Jura Energy Corporation, a public company traded on the TSX. The market value of the investment at December 31, 2014 was $125 thousand (December 31, 2013 - $155 thousand).

8. Property, plant and equipment

Future development costs associated with the proved plus probable reserves of $67.8 million (2013 - $104.5 million) were included in the depletion calculations.

	Oil and gas interests	Plant and equipment	Other	Total
Cost or deemed cost:				
Balance at December 31, 2012	$ 105,803	$ 21,354	$ 3,641	$ 130,798
Additions	21,270	7,410	288	28,968
Acquisition of Winstar	164,711	-	-	164,711
Dispositions	(100)	(491)	(162)	(753)
Foreign currency translation adjustment	(2,309)	(872)	(161)	(3,342)
Balance at December 31, 2013	$ 289,375	$ 27,401	$ 3,606	$ 320,382
Additions	48,100	3,076	2,210	53,386
Dispositions	-	(105)	(245)	(350)
Foreign currency translation adjustment	(39,136)	(14,467)	(1,546)	(55,149)
Balance at December 31, 2014	$ 298,339	$ 15,905	$ 4,025	$ 318,269
Accumulated depletion and depreciation:				
Balance at December 31, 2012	$ (25,856)	$ (4,514)	$ (1,207)	$ (31,577)
Depletion and depreciation	(26,938)	(147)	(697)	(27,782)
Depreciation capitalized	1,584	-	-	1,584
Foreign currency translation adjustment	671	134	33	838
Balance at December 31, 2013	$ (50,539)	$ (4,527)	$ (1,871)	$ (56,937)
Depletion and depreciation	(27,088)	(1,843)	(816)	(29,747)
Depreciation capitalized	859	-	-	859
Dispositions	-	47	162	209
Impairment (note 10)	(54,121)	(798)	(7)	(54,926)
Foreign currency translation adjustment	16,097	2,745	393	19,235
Balance at December 31, 2014	$ (114,792)	$ (4,376)	$ (2,139)	$ (121,307)
Net book value:				
Balance at December 31, 2013	$ 238,836	$ 22,874	$ 1,735	$ 263,445
Balance at December 31, 2014	$ 183,547	$ 11,529	$ 1,886	$ 196,962

(Stated in thousands of US dollars, except as noted)

9. Exploration and evaluation assets

	As at December 31, 2014	As at December 31, 2013
Carrying amount, beginning of the year	$ 11,834	$ 47,358
Additions	13,868	47,547
Acquisition of Winstar (note 5)	-	100
Impairment on Block L, Brunei (note 10)	-	(83,053)
Cumulative translation adjustment	(6,379)	(118)
Carrying amount, end of the period	$ 19,323	$ 11,834

E&E assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period.

The following is a breakdown of the carrying amount of the E&E assets:

	As at December 31, 2014	As at December 31, 2013
Ukraine	6,766	10,947
Romania	12,557	887
	$ 19,323	$ 11,834

10. Asset impairment

(a) Tunisia

As a result of the declining commodity prices for oil, natural gas, and natural gas liquids, the Company performed an impairment test on its Tunisian CGUs at December 31, 2014 using a value in use methodology. The test resulted in the following impairment by CGU:

Chouech Es Saida	$ 27,423
Ech Chouech	12,495
Sabria	2,968
Zinnia	130
Sanrhar	6,315
	$ 49,331

The recoverable amounts determined for each impaired field were approximately $39.4 million for Chouech Es Saida, $7.8 million for Ech Chouech, $61.0 million for Sabria, $nil for Zinnia, and $0.2 million for Sanrhar. The value in use was used based on 2014 year-end reserves data, a risk-adjusted pre-tax discount rate of 29.7% (after-tax rate: 17.7%), and the following price forecast (adjusted for quality differentials specific to the Company):

(Stated in thousands of US dollars, except as noted)

	Oil (US$/bbl)	Gas (US$/mcf)	
Year	All fields	Sabria	Chouech / Ech Chouech
2015	70.03	9.74	10.32
2016	74.64	10.38	11.00
2017	79.50	11.06	11.72
2018	84.50	11.76	12.45
2019	89.50	12.45	13.19
2020	93.85	13.06	13.83
2021	95.72	13.32	14.11
2022	97.64	13.58	14.39
2023	99.59	13.86	14.68
2024	101.58	14.13	14.97
2025	103.61	14.42	15.27
2026	105.69	14.70	15.58
2027	107.80	15.00	15.89
2028	109.96	15.30	16.21
2029	112.16	15.60	16.53
2030	114.40	15.92	16.86
2031	116.69	16.24	17.20
2032	119.02	16.56	17.54
2033	121.40	16.89	17.89

The above estimates of the recoverable amounts are particularly sensitive in the following areas:

(i) A change of 1 percentage point in the discount rate used to value proven and probable reserves would have changed the impairment loss by:

Chouech Es Saida	$	1,200
Ech Chouech		250
Sabria		2,905
Zinnia		-
Sanrhar		10
	$	4,365

(ii) A 10 percent decrease in estimated future commodity prices would have increased the impairment loss by:

Chouech Es Saida	$	11,585
Ech Chouech		2,090
Sabria		20,850
Zinnia		-
Sanrhar		236
	$	34,761

(b) Ukraine

As a result of the security situation in and around the Vergunskoye and Krutogorovskoye fields and as a result of the declining commodity prices for oil, natural gas, and natural gas liquids, the Company performed an impairment test on its Ukrainian CGUs at December 31, 2014 using a value in use methodology. The test resulted in the following impairment by CGU:

Vergunskoye	$	630
Krutogorovskoye		4,160
Related plant and equipment and other		805
	$	5,595

The recoverable amounts determined as a result of the test were nil for the Vergunskoye and Krutogorovskoye fields as at December 31, 2014. An expected cash flow approach was used based on 2014 year-end reserves data for the remaining fields. For the remaining fields, the value in use was used based on 2014 year-end reserves data, a risk-adjusted pre-tax discount rate of 29.8% (after-tax rate: 25%), and the following price forecast (adjusted for quality differentials specific to the Company):

(Stated in thousands of US dollars, except as noted)

Year	Gas (US$/mcf)	NGL (US$/bbl)
2015	8.43	56.87
2016	8.34	60.61
2017	8.58	64.55
2018	8.82	68.61
2019	9.07	72.67
2020	9.26	76.20
2021	9.44	77.73
2022	9.63	79.28
2023	9.82	80.87
2024	10.02	82.49
2025	10.22	84.14
2026	10.43	85.82
2027	10.63	87.53
2028	10.85	89.29
2029	11.06	91.07
2030	11.28	92.89
2031	11.51	94.75
2032	11.74	96.65
2033	11.98	98.58
2034	12.22	100.55
2035	12.46	102.56

Impairment in Ukraine would not be impacted by a 1 percent change in the discount rate used to value proved and probable reserves or a 10 percent change in the future estimated commodity pricing utilized.

(c) Brunei – Block L

During the phase 2 work commitments, The Company encountered operational difficulties and suspended further drilling activities. Due to the results of the wells drilled, the Company determined that an indicator of impairment existed at December 31, 2013 and management performed an impairment test. The future cash flows of Block L were uncertain with no proved or probable reserves assigned; therefore the Company determined that as of December 31, 2013, the Block L CGU was impaired by the full amount spent to date and impairment of $83.0 million was recorded.

11. Transaction costs

Transaction costs include costs associated with new ventures, financing opportunities and other miscellaneous projects. For the year ended December 31, 2014, transaction costs were $1.5 million (2013 - $4.5 million).

12. Convertible note payable

Dutco loan

	Face Value	Liability
Balance December 31, 2013	$ 15,000	$ 15,000
Repayment	(15,000)	(15,000)
Balance December 31, 2014	$ -	$ -

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

The term of the Dutco Credit Facility was 12 months with interest calculated on outstanding amounts at a rate of 12% per annum and paid monthly. As at December 31, 2014, the Company has fully repaid the facility.

(Stated in thousands of US dollars, except as noted)

13. Long-term debt

	As at December 31, 2014	As at December 31, 2013
Current portion of long-term debt		
Ukraine funding (a)	$ 1,770	$ 4,026
Tunisia funding (b)	3,333	-
	5,103	4,026
Long-term debt		
Ukraine funding (a)	615	3,640
Tunisia funding (b)	31,589	4,390
	32,204	8,030
Total debt	$ 37,307	$ 12,056

(a) Ukraine funding

	As at December 31, 2014	As at December 31, 2013
Current portion of long-term debt	$ 1,770	$ 4,026
Long-term debt	615	3,640
Total debt	$ 2,385	$ 7,666

On May 20, 2011, KUB-Gas finalized a $40.0 million loan agreement with the European Bank for Reconstruction and Development ("EBRD"). The loan is denominated in US dollars and consisted of two tranches that had to be drawn within a commitment period of two years from the date of signing the loan agreement.

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

A total of $23 million was drawn on this loan. The loan is to be repaid in 13 equal semi-annual instalments with the first payment made on July 15, 2012. In January and July 2014, scheduled repayments of $1.8 million, respectively were made (January and July 2013 - $1.8 million, respectively). A repayment of $1.8 million was made in December 2014 in advance of the instalment due in January 2015 due to issues with obtaining USD in Ukraine. There are two payments remaining on this debt, one in July 2015 and the other in January 2016, at which time the loan will be repaid in its entirety.

The loan is secured by pledges on certain tangible assets in Ukraine as well as on future revenues earned in Ukraine. The debt is fully guaranteed by the Company through a parent company guarantee. At December 31, 2014, KUB-Gas was in compliance with all debt covenants.

(b) Tunisia funding

On November 20, 2013, Serinus finalized two loan agreements aggregating $60 million with EBRD. The Senior Loan is in the amount of USD $40 million and is available in two tranches of USD $20 million each. The Convertible Loan is in the amount of USD $20 million and can be converted into common shares of the Company.

Both loans have a term of seven years and are available to be drawn for a period of three years.

The loans are secured by the Tunisian assets, pledges of certain bank accounts plus the shares of the Company's subsidiaries through which the concessions are owned, plus the benefits arising from the Company's interests in insurance policies and on-lending arrangements within the Serinus group of companies.

Senior Loan	As at December 31, 2014	As at December 31, 2013
Current portion of long-term debt	$ 3,333	$ -
Long-term debt	16,433	4,390
Total	$ 19,766	$ 4,390

(Stated in thousands of US dollars, except as noted)

Interest on the Senior Loan is payable semi-annually at a variable rate equal to LIBOR plus 6%. At the Company's option, the interest rate may be fixed at the sum of 6% and the forward rate available to EBRD on the interest rate swap market. The Company fixed the interest rate on the first $20 million tranche at 6.9% for the two year period September 30, 2014 to September 30, 2016.

The Senior Loan is repayable in twelve equal semi-annual installments commencing March 31, 2015. The second tranche of the Senior Loan is available only after the Convertible Loan is fully drawn, and is also subject to certain conditions including achieving and maintaining specified production targets, and meeting specified financial and reserve coverage ratios.

Convertible Loan	As at December 31, 2014	As at December 31, 2013
Current portion of long-term debt	$ -	$ -
Long-term debt	15,156	-
Total	$ 15,156	$ -

Interest on the Convertible Loan is calculated semi-annually at a variable rate that is the LIBOR rate and a percentage calculated on the basis of incremental net revenues earned from the Tunisian assets, with a floor of 8% per annum and a ceiling of 17% per annum. Interest is accrued for payment on maturity of the Convertible Loan.

The convertible loan can be repaid at maturity in cash; or the Company or EBRD can elect to convert all or any portion of the principal and accrued interest outstanding for common shares based on the current trading price of the shares.

Both loan agreements contain a number of affirmative covenants, including maintaining the specified security, environmental and social compliance, and maintenance of specified financial ratios. At December 31, 2014, the Company was in compliance with all debt covenants.

On December 30, 2013 the Company drew $5.0 million from Tranche 1 of the Senior Loan and $0.6 million of transaction costs were paid. As at December 31, 2014, the Company has drawn $20.0 million of the Senior Loan, $15.0 million of the Convertible Loan and incurred transaction costs of $1.0 million. Subsequent to year end, the final disbursement of $5.0 million was drawn on the convertible loan.

14. Asset retirement obligation

	As at December 31 2014	As at December 31 2013
Balance, beginning of year	$ 28,989	$ 1,231
Obligations acquired	-	26,103
Provisions for new wells	908	1,518
Changes in estimates	587	-
Abandoned wells	(145)	(296)
Accretion	852	462
Translation adjustment	(401)	(29)
Balance, end of year	$ 30,790	$ 28,989
Due within one year	$ 3,209	$ 3,209
Long term liability	27,581	25,780
Total	$ 30,790	$ 28,989

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

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

(Stated in thousands of US dollars, except as noted)

The Company has estimated the future cash flows prior to discounting, of the asset retirement obligation for Ukraine to be $0.4 million as at December 31, 2014 (December 31, 2013 - $1.6 million) and $27.7 million for Tunisia (December 31, 2013 - $34.0 million). The asset retirement obligation in Ukraine was discounted using a risk free interest rate of approximately 7% (2013 – 7%). The Tunisia asset retirement obligation was discounted using a risk free discount rate of approximately 2% (2013 – 3%). Other than as noted above, these obligations are not expected to be settled within a year and are therefore reported as a long-term liability.

15. Other provisions

	As at December 31, 2014	As at December 31, 2013
Balance, beginning of year	$ 1,148	$ -
Obligations acquired	-	1,325
Changes in estimates	-	(177)
Balance, end of year	$ 1,148	$ 1,148

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

16. Income taxes

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

	As at December 31 2014	As at December 31 2013
Loss before income taxes	$ (22,616)	$ (44,144)
Federal and provincial statutory rate	*25.0%*	*25.0%*
Expected income tax reduction	(5,654)	(11,036)
Non-deductible expenditures	1,976	1,039
Tax rate differences and net changes in tax attributes not recognized	5,023	23,379
Income tax expense/(recovery)	$ 1,345	$ 13,382

The general federal/provincial tax rate in Alberta, Canada has remained at 25.0% in 2014 (2013 – 25.0%).

The current tax expense is generated from the Company's operations in Ukraine and Tunisia. The corporate income tax rate effective during 2014 in Ukraine is approximately 18.0 % with a blended rate of approximately 45.2% in Tunisia (2013 - Ukraine 19.0%, Tunisia 40.3%). There was no income tax recognized directly in equity during 2014 and 2013.

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

	As at December 31, 2014	As at December 31, 2013
Property and equipment and E&E assets	$ (51,749)	$ (57,169)
Decommissioning provision	11,049	9,089
Other	4,186	1,280
Deferred income tax liability	$ (36,514)	$ (46,800)

Unrecognized deferred tax assets

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

	As at December 31, 2014	As at December 31, 2013
Property and equipment and E&E assets	$ 128,269	$ 176,576
Share issuance costs	1,920	3,694
Decommissioning provision	-	16
Non-capital losses carried forward and other	91,931	62,851
	$ 222,120	$ 243,137

(Stated in thousands of US dollars, except as noted)

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 $68.0 million that expire between 2028 and 2034, and Cyprus tax losses of $23.9 million that have an indefinite expiry period (2013 - $44.8 million and $18.0 million respectively).

The Company has temporary differences associated with its investments in its foreign subsidiaries. The Company has no deferred tax liabilities in respect to these temporary differences.

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.

17. Share capital

(a) Authorized

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

(b) Issued

On February 13, 2014 the Company issued 18,500 shares related to the exercise of stock options and has a total of 78,629,941 shares outstanding at December 31, 2014.

(c) Loss per share

	Year ended December 31 2014	2013
Net loss attributable to common shareholders		
Basic and diluted	$ (30,501)	$ (68,862)
Weighted average number of shares outstanding		
Basic and diluted	78,627,711	64,018,949
Loss per share attributable to common shareholders		
Basic and diluted	$ (0.39)	$ (1.07)

(d) Stock options

The Company has granted common share purchase options to officers, directors, employees and certain consultants with exercise prices equal to or greater than the fair value of the common shares on the grant date. Upon exercise, the options are settled in common shares issued from treasury. Each tranche of the share purchase options have a five year term and vest one-third immediately with the remaining two-thirds at one-third per year each on the anniversary of the grant date.

(Stated in thousands of US dollars, except as noted)

A summary of the changes to option plan during the years ended December 31, 2014 and 2013, is presented below:

	USD denominated options		**CAD denominated options**	
	Number of Options	Weighted average exercise price per option (US$)	Number of Options	Weighted average exercise price per option (CAD$)
Balance, December 31, 2012	4,129,400	$ 5.28	-	$ -
Granted	3,062,000	$ 3.89	-	$ -
Expired	(47,500)	$ 4.00	-	$ -
Forfeited	(54,000)	$ 3.61	-	$ -
Balance, December 31, 2013	7,089,900	$ 4.69	-	$ -
Granted	248,000	$ 3.54	141,000	$ 2.39
Exercised	(18,500)	$ 2.85	-	$ -
Expired	(1,677,000)	$ 5.40	-	$ -
Balance, December 31, 2014	5,642,400	$ 4.39	141,000	$ 2.39

The following tables summarize information about the options outstanding as at December 31, 2014:

USD denominated options:

Exercise price (US$)	Outstanding	Exercisable	Weighted average contractual life remaining, years
$ 2.85 - $ 3.50	489,000	290,002	3.74
$ 3.51 - $ 4.00	1,357,400	1,357,400	1.45
$ 4.01 - $ 5.00	2,761,000	1,965,330	3.71
$ 5.01 - $ 6.20	1,035,000	1,035,000	0.46
$ 4.39	5,642,400	4,647,732	2.57

CAD denominated options:

Exercise price (CAD$)	Outstanding	Exercisable	Weighted average contractual life remaining, years
$ 1.56 - $ 2.50	74,000	24,667	4.84
$ 2.51 - $ 3.22	67,000	22,333	4.46
$ 2.39	141,000	47,000	4.66

Subsequent to December 31, 2014, the Company cancelled 2.7 million USD denominated options with a weighted average exercise price of $4.05.

(e) Stock Based Compensation expense

The weighted average inputs used in the Black-Scholes pricing model to determine the fair value of the options granted during the years ended December 31, 2014 and 2013 include the following:

	2014		2013
	USD Options	CAD Options	USD Options
Weighted average fair value per option ($USD)	$ 1.78	$ 1.19	$ 1.99
Exercise price ($USD)	$ 3.54	$ 2.35	$ 3.89
Volatility	65.90%	61.01%	65.90%
Interest rate	1.49%	1.37%	1.49%
Expected life (years)	4.00	4.79	4
Forfeiture rate	3.33%	0.00%	3.33%
Dividends	Nil	Nil	Nil

(Stated in thousands of US dollars, except as noted)

18. Non-controlling interests

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

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

	Year ended December 31, 2014	2013
Revenue	119,325	117,749
Net earnings	21,799	37,186
Other comprehensive loss	(34,108)	(1,442)
Total comprehensive earnings/(loss)	(12,309)	35,744
Net earnings attributable to non-controlling interest	**6,540**	**11,156**
Total comprehensive earnings attributable to non-controlling	**(3,692)**	**10,723**
Current assets	13,353	11,941
Non-current assets	76,694	115,084
Current liabilities	(19,455)	(9,043)
Non-current liabilities	(6,452)	(10,088)
Net assets	64,140	107,894
Net assets attributable to non-controlling interest	**19,242**	**32,369**
Cash flows from operating activities	23,853	51,066
Cash flows from financing	(7,029)	(27,393)
Cash flows from investing	(18,850)	(28,654)
Change in cash	(2,026)	(4,981)
Dividends paid to non-controlling interests during the year (note 6)	**(9,435)**	**(9,750)**

19. Contractual obligations and commitments

The contractual obligations of the Company as at December 31, 2014 are as follows:

	Within 1 Year	2-3 Years	4-5 Years	+5 Years	Total
Office Rental	$ 671	$ 959	$ 925	$ 441	$ 2,996
EBRD loan-Ukraine	1,770	615	-	-	2,385
EBRD loan-Tunisia	3,333	6,667	6,667	18,255	34,922
Total contractual obligations	$ 5,774	$ 8,241	$ 7,592	$ 18,696	$ 40,303

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

Ukraine

The Company has an obligation to incur certain capital expenditures to comply with Ukrainian exploration licence requirements. Under these licence maintenance commitments, KUB-Gas is required to acquire and process seismic, conduct geophysical studies and drill exploratory wells on licenced fields. Although these commitments are not binding and may be modified based on results of exploration work, KUB-Gas' potential capital expenditures relating to qualifying activities on gas and gas condensate fields may reach $1.0 million during 2015 as part of the planned development program. Justified deviation from the capital expenditures committed is permitted and should be agreed with the licensor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the licence. KUB-Gas's potential capital expenditure relate to the North Makeevskoye license, where the Company may resume drilling of the NM-4 exploration well for retention of the license.

(Stated in thousands of US dollars, except as noted)

Tunisia

The Tunisian state oil and gas company, Enterprise Tunisienne D'Activities Petroliers ("ETAP"), has the right to back into up to a 50% working interest in the Chouech Es Saida concession if, and when, the cumulative liquid hydrocarbon sales, net of royalties and shrinkage, from the concession exceeds 6.5 million barrels. As at December 31, 2014 cumulative liquid hydrocarbon sales net of royalties and shrinkage was 4.9 million barrels. Management is of the opinion that there are sufficient exploration and development opportunities which, if successful, could result in this provision being exercised within the next 10 years.

Romania

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

Office Space

The Company had a lease agreement for office space in Calgary, Canada which expires on November 30, 2020.

20. Personnel expenses

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

	Year ended December 31, 2014	2013
Wages, salaries and benefits	$ 25,843	$ 17,561
Bonus	1,213	2,911
Stock based compensation (i)	2,897	2,927
Total remuneration	$ 29,953	$ 23,399

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

Personnel expenses directly attributed to exploration activities of $1.2 million have been capitalized and included in exploration assets (2013 - $0.9 million). Personnel expenses directly attributed to oil and gas properties of $3.9 million have been capitalized and included in property and equipment (2013 – $1.4 million). Fees paid to the directors of the Company are included in wages, salaries and benefits.

(b) Compensation of key management personnel includes Serinus' Board of Directors and members of the Executive Leadership Team (President & CEO, CFO, Executive Vice President & COO, Vice President Operations & Engineering, Vice President Exploration, Vice President Investor Relations & Managing Director CEE and General Counsel, Vice President Legal and Corporate Secretary). Key management personnel compensation consists of the following:

	Year ended December 31, 2014	2013
Wages, salaries and benefits	$ 3,182	$ 2,159
Bonus	1,213	1,445
Stock based compensation (i)	2,287	565
Total remuneration	$ 6,682	$ 4,169

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

The Company presents its statement of operations predominately by function with the exception that personnel costs are included in production expenses and general and administrative expenses; and stock based compensation is presented separately. Total personnel costs included in the statement of operations was $24.8 million (2013 - $21.1 million) of which $10.2 million (2013 - $8.4 million) was included in production expenses, $11.7 million (2013 - $9.7 million) was included in general and administrative expenses and $2.9 million (2013 - $2.9 million) was reported as stock based compensation.

21. Fair values and risk management

Fair value measurements

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Fair value of oil and gas properties:

The fair value of oil and gas properties is determined using externally prepared reserve reports and discount rates specific to the Company and the respective oil and gas properties.

(ii) Fair value of financial instruments:

The Company, as part of its operations, carries a number of financial instruments including cash and cash equivalents, restricted cash, investments, accounts receivable, accounts payable and accrued liabilities, convertible note payable and long-term debt.

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 equivalent, accounts receivable, accounts payable and accrued liabilities and convertible note payable approximate their carrying amounts due to their short-term maturities. The fair value of the long-term debt approximates to carrying value as interest is at a floating market rate and accordingly the fair market value approximates the carrying value (level 2 fair value). The Company's investment is classified as fair value through profit and loss and is an investment in a public company that is quoted on the TSX. This investment is carried at fair value as a level 1 investment. Serinus does not have any derivative financial instruments at December 31, 2014 (2013 – nil).

(iii) Fair value of stock options:

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), 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's 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 a financial asset or a financial liability will fluctuate because of changes 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.

(Stated in thousands of US dollars, except as noted)

(i) Commodity price risk

The Company is exposed to commodity price risk in fluctuations in the price of oil, natural gas and natural gas liquids. The domestic gas price within Ukraine is set by the National Electricity Regulatory Commission of Ukraine by reference to the Russian imported gas price. While in Tunisia, oil prices are based on a premium or discount to the market price of Brent crude oil. The Company has no commodity hedge program in place which could potentially mitigate the price risk.

(ii) Foreign currency exchange risk

Foreign currency transactions

The financial statements are presented in U.S. dollars, which is the reporting currency of the Company. For the year ended December 31, 2014, a foreign exchange loss of $9.0 million is recorded in the income statement (2013 - $1.2 million). The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar, Polish zloty, Ukraine hryvnia, Romanian leu, Tunisian dinar, the Euro and the United States dollar. At December 31, 2014 the Company's primary currency exposure related to Canadian dollar ("CAD"), Ukraine hryvnia ("UAH"), Tunisian dinar ("TD"), and Romanian leu ("LEU") balances. The following table summarizes the Company's foreign currency exchange risk for each of the currencies indicated:

	December 31, 2014			
	CAD	UAH	TD	LEU
Cash and cash equivalents	687	9,075	9,909	6,692
Accounts receivable	210	80,232	26,489	(326)
Income tax receivable	-	10,871	5,774	-
Prepaid expenses	88	16,923	164	82
Accounts payable and accrued liabilities	(1,521)	(180,473)	(37,442)	(15,213)
Net foreign exchange exposure	$ (536)	$ (63,372)	$ 4,894	$ (8,765)
US $ equivalent at period end exchange rate	$ (462)	$ (3,893)	$ 2,619	$ (2,366)

	December 31, 2013			
	CAD	UAH	TD	LEU
Cash and cash equivalents	112	22,027	446	947
Accounts receivable	103	22,640	16,793	120
Prepaid expenses	318	46,479	97	-
Accounts payable and accrued liabilities	(879)	(66,266)	(17,261)	(498)
Net foreign exchange exposure	$ (346)	$ 24,880	$ 75	$ 569
US $ equivalent at period end exchange rate	$ (325)	$ 3,001	$ 46	$ 177

Based on the net foreign exchange exposure at the end of the period, 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:

	As at December 31,	
	2014	2013
Canadian dollar	$ (54)	$ (35)
Ukraine hryvnia	(6,337)	2,488
Tunisian dinar	489	8
Romanian leu	(877)	57
Total	$ (6,779)	$ 2,518

(Stated in thousands of US dollars, except as noted)

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

	As at December 31.	
	2014	2013
Cash and cash equivalents	$ 67	$ 66
Loan with parent	(1,340)	(4,870)
Loan with EBRD	(2,590)	(7,666)
Accounts payable and accrued liabilities	(959)	(2,626)
Net foreign exchange exposure	$ (4,822)	$ (15,096)

A 10% weakening of the hryvnia compared to the US Dollar and all other variables were held constant, would result in a decrease in the after tax earnings by approximately $2.2 million (2013 - $0.6 million).

Earnings are also impacted by fluctuations in the hryvnia for US Dollar balances outstanding within Ukraine subsidiary, KUB-Gas, which has the hryvnia as its functional currency. As a result of a 49% deterioration of the Hryvnia versus the US dollar during the year ended December 31, 2014, the translation of balances denominated in currencies other than Hryvnia at period end into Hryvnia resulted in a foreign exchange loss of $6.7 million for the year ended December 31, 2014 (2013: $0.4 million).

Foreign currency translation:

On consolidation of KUB-Gas by the Company, the assets and liabilities of KUB-Gas are translated into U.S. dollars at exchange rates at the balance sheet date. Revenues and expenses of foreign operations are translated into U.S. dollars using foreign exchange rates that approximate those on the date of the underlying transaction. These translation gains and losses are included in accumulated other comprehensive loss, with a loss of $34 million being recorded for the year ended December 31, 2014 (2013 - $1 million).

(iii) Interest rate risk

The Company maintains its cash and cash equivalents in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon.

Interest on the EBRD loan for Ukraine is based on two components: LIBOR plus a margin, and a fee based on incremental revenue growth, up to a stated maximum of 19%. The interest on the EBRD loan for Tunisia is based on LIBOR and has a portion based on incremental revenue with a floor of 8% and ceiling of 17% relating to the convertible loan portion. A 1% change in the LIBOR would affect interest expense by $24 thousand based on the debt balance outstanding at December 31, 2014 (2013 - $0.1 million).

(iv) Credit risk

The Company's cash and cash equivalents and restricted cash are held with major financial institutions. Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash, cash equivalents and restricted cash. With the dividend restriction in Ukraine, cash balances may accumulate in Ukraine. As at December 31, 2014, $5.6 million of cash and restricted cash is held in Ukraine.

The Company's accounts receivable consist of receivables from other joint venture partners that are anticipated to be applied against future capital expenditures, receivables for revenue in Ukraine and Tunisia, commodity taxes recoverable from the federal government of Canada and interest earned on restricted cash deposits, for which credit risk is assessed as being low as the funds are on deposit with major financial institutions.

Management believes that the Company's exposure to Ukrainian and Tunisian credit risk is manageable, as commodities sold are under contract or payment within 30 days. In Ukraine, credit evaluations are performed on customers requiring credit over a certain amount. With the current political and fiscal uncertainty in Ukraine, the risk of non-payment has increased, which is being closely monitored and assessed by management. In Tunisia, oil is sold with reputable parties and collection is prompt based on the individual terms with the parties. At December 31, 2014, the Company had $1.4 million (December 31, 2013- $2.1 million) of receivables that were considered past due. The majority of these amounts are due from large well established customers and management believes the balances will be collected. For the year ended December 31, 2014, the Company has four customers with sales representing 34%, 23%, 13% and 7% of total sales (2013 – 31%, 21%, 20% and 11%).

(Stated in thousands of US dollars, except as noted)

Management has no formal credit policy in place for customers outside Ukraine and the exposure to credit risk is approved and monitored on an ongoing basis individually for all significant customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position. The Company does not require collateral in respect of financial assets.

(v) 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 licences, farm-out arrangements and securing new equity or debt capital.

For the timing of cash outflows related to commitments including debt see note 19 Contractual obligations and commitments.

22. Capital management

	Year ended December 31, 2014	2013
Shareholders equity	105,990	170,544
Current portion of long-term debt	5,103	4,026
Convertible note payable	-	15,000
Long-term debt	32,204	8,030
Total capital resources	$ 143,297	$ 197,600

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.

The terms and conditions of the EBRD Loan agreements do not prohibit the payment of dividends in Ukraine or Tunisia as long as the Company is in compliance with the financial and non-financial covenants in the agreements. During 2013, the Ukrainian subsidiary successfully declared and paid dividends to its parent Company. In 2014, certain restrictions were waived allowing for a higher portion of Ukraine earnings to be paid to the Company as a dividend or as a repayment of existing loans. Further in September 2014, National Bank of Ukraine adopted Resolution No. 591, which prohibits several types of foreign exchange transactions, including the ability of KUB-Gas to pay dividends to shareholders. The restrictions were set to expire in December 2014 and were extended to March 3, 2015. In March 2015, the restrictions were further extended to June 3, 2015. (note 1(b)).

23. Related party transactions

Nemmoco Petroleum Corporation ("Nemmoco"), a private company of which 37.5% is owned by Timothy M. Elliott, an officer and director of the Company, provides certain personnel and general, accounting and administrative services to the Company at its offices in Dubai on a cost basis. For the year ended December 31, 2014, the fees totalled $0.7 million (2013 - $0.8 million). At December 31, 2014, $67 thousand was owed to Nemmoco (December 31, 2013 - $23 thousand).

Loon Energy Corporation ("Loon Energy") is a publicly traded Canadian corporation, with no employees. Management and administrative services are provided by the management and staff of Serinus. Serinus and Loon Energy are related as they have five common directors and officers and the same principal shareholder. For the year ended December 31, 2014, these fees totaled $11 thousand (2013 - $12 thousand). At December 31, 2014, Loon Energy owed $nil (December 31, 2013 – $nil) to Serinus for these services.

The Company remains legally responsible for a guarantee issued in August 2007 (the "Loon Guarantee") to the Government of Peru regarding the granting of a license contract to a former subsidiary company, Loon Peru Limited. Loon Energy and the Company have an indemnification agreement in respect of the Loon Guarantee. The maximum liability to the Company that may arise from the Loon Guarantee is based on the first exploration phase. The minimum work program for the first phase has been completed and the Company does not anticipate any exposure to the guarantee.

(Stated in thousands of US dollars, except as noted)

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

24. Segmented information

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

	Romania	Tunisia	Ukraine	Corporate (i)	Total
As at December 31, 2014					
Total Assets	$ 14,340	$ 154,340	$ 83,195	$ 7,592	$ 259,467
For the year ended December 31, 2014					
Oil and gas revenue, net of royalties	$ -	$ 39,065	$ 76,655	$ -	$ 115,720
Operating expenses:					
Production expenses	-	(13,538)	(13,428)	(240)	(27,206)
General and administrative	-	-	-	(10,486)	(10,486)
Transaction costs	-	-	-	(1,533)	(1,533)
Stock based compensation	-	-	-	(2,897)	(2,897)
Gain (loss) on disposition of assets	-	-	(152)	986	834
Depletion and depreciation	(6)	(12,790)	(16,805)	(146)	(29,747)
Asset impairment	-	(49,333)	(5,593)	-	(54,926)
Finance income/(expenses)					
Interest and other income	-	4	1,270	1,085	2,359
Unrealized loss on investments	-	-	-	(30)	(30)
Interest expense and accretion	(45)	(1,674)	(2,112)	(1,871)	(5,702)
Foreign exchange loss	(721)	(606)	(6,707)	(968)	(9,002)
Earnings (loss) before tax	$ (772)	$ (38,872)	$ 33,128	$ (16,100)	$ (22,616)
Current tax expense	-	(35)	(9,368)	(39)	(9,442)
Deferred tax recovery	-	9,967	(1,870)	-	8,097
Net Earnings (loss)	$ (772)	$ (28,940)	$ 21,890	$ (16,139)	$ (23,961)
Capital expenditures	$ 12,312	$ 36,651	$ 18,322	$ 1,165	$ 68,450

(i) Corporate balances include those values previously presented as Brunei.

(Stated in thousands of US dollars, except as noted)

	Romania	Tunisia	Ukraine	Corporate	Total
As at December 31, 2013					
Total Assets	$ 1,357	$ 183,988	$ 120,862	$ 6,266	$ 312,473
For the year ended December 31, 2013					
Oil and gas revenue, net of royalties	$ -	$ 24,850	$ 87,386	$ -	$ 112,236
Operating expenses:					
Production expenses	-	(5,750)	(15,176)	-	(20,926)
General and administrative	-	(319)	(1,746)	(10,002)	(12,067)
Transaction costs	-	-	-	(4,487)	(4,487)
Stock based compensation	-	-	-	(2,927)	(2,927)
Loss on disposition of assets	-	-	-	-	-
Depletion and depreciation	(2)	(6,552)	(21,077)	(151)	(27,782)
Impairment on exploration and evaluation assets	-	-	-	(83,053)	(83,053)
Finance income/(expense)					
Interest and other income	-	20	564	6	590
Unrealized loss on investment	-	-	-	(145)	(145)
Interest expense and accretion	-	(647)	(2,415)	(1,347)	(4,409)
Foreign exchange loss	9	39	(1,311)	89	(1,174)
Earnings (loss) before tax	$ 7	$ 11,641	$ 46,225	$ (102,017)	$ (44,144)
Current tax expense	-	(5,543)	(10,482)	-	(16,025)
Deferred tax recovery / (expense)	-	1,200	1,443	-	2,643
Net Earnings (loss)	$ 7	$ 7,298	$ 37,186	$ (102,017)	$ (57,526)
Capital expenditures	$ 788	$ 2,681	$ 30,034	$ 42,057	$ 75,560

25. Subsequent Events

(a) EBRD Debt – Romania

On February 20, 2015, Serinus finalized a new €10 million (approximately $11.28 million) debt facility with EBRD. The proceeds from the new facility (the "Romania Facility") will be used to fund the Company's capital program in Romania. The Romania Facility will be a senior loan with the following significant terms:

(i) Interest rate: LIBOR (six month) plus 8%
(ii) Repayment: 10 semi-annual instalments beginning on the first anniversary of the loan agreement
(iii) Accelerated Repayment Provisions as follows:

If and when the Company is able to convert and repatriate its cash in Ukraine, currently held in UAH, the Company will apply those funds to early repayment the Romania Facility according to the following schedule:

Threshold	Amount Applied to Pre-Payment
Up to the first 50 million UAH equivalent	100%
Thereafter, until 50% of the Romania Facility has been pre-paid	70%
Thereafter, until 70% of the Romania Facility has been pre-paid	50%
Thereafter, until the Romania Facility has been fully repaid	30%

The Company will apply 40% of its Excess Cash from Tunisia toward early repayment of the Romania Facility and once repaid, then Excess Cash shall be applied to the Tunisian facility outstanding with EBRD. Excess Cash is defined as the Operating Cash Flow from Serinus' Tunisia subsidiary, less debt service costs arising from all senior debt on the Tunisia assets and the Romanian debt, less capital expenditures, plus any new debt disbursement on the Tunisian debt. In the event that pre-payments are made in any given year from Ukraine as described above, the repayment from Tunisia shall drop to 25% of Excess Cash. No pre-payment fees are applicable to the accelerated payments described above.

The debt is also subject to certain affirmative covenants, including maintaining the specific security, environmental and social compliance, and maintenance of specified financial ratios.

(Stated in thousands of US dollars, except as noted)

With the placement of the EBRD Romanian Facility subsequent to year end, the committed portion of the second tranche of the Company's senior debt facility with the EBRD associated with the Tunisian assets has been reduced from $20 million to $8.72 million.

(b) Ukrainian hryvnia currency devaluation

As of December 31, 2014, the KUB-Gas financial statements were converted from Ukrainian hryvnia to US Dollar using an exchange rate of 16.28. On March 18, 2015, the date these financial statements and notes were authorized for issuance by the Board of Directors, the Ukrainian hryvnia to US Dollar exchange rate is 23.52, representing a deterioration of 31%. If the deterioration occurred at year end, the financial effect to the balance sheet would have been:

		As at December 31, 2014
Current assets	$	(2,224)
Current liabilities		3,412
Total assets		(15,289)
Total liabilities		4,460