Dear Fellow Shareholders

2014 was a very challenging year for Serinus and the energy industry as a whole. While the collapse in oil prices during the second half of the year and its consequent impact on our business was an adversity shared with the industry, the war in Ukraine and the suffering caused to our employees and the people of Ukraine was virtually unique to our company. In spite of these challenges, corporate production peaked at nearly 6,000 boe/d in September, only to start declining as the situation in Ukraine deteriorated further.

After hitting a high of $115/bbl in July, Brent crude dropped throughout the second half of 2014, closing out the year at just over $57/bbl, and reached a low as $46.59/bbl in mid January 2015. This had its most direct effects on the Company's revenues in Tunisia, where the oil it sells is priced off of Brent crude, with minor discounts or premiums depending on the day to day market at the time of each tanker lift. Tunisian gas prices have not yet fallen as steeply, but as they are tied to those of low sulphur fuel oil, the full effect will eventually be felt.

In Ukraine, the natural gas price is set according to the price of imported Russian gas. While this has not moved in lock step with world oil markets, it has had its own set of challenges and vagueries. In the first quarter of 2014, Russia gave a 30% discount on its gas to Ukraine as well as purchasing $15 billion in Ukrainian bonds after the then President Victor Yanukovych pulled out of discussions over closer economic ties to the European Union and the west in general. That discount flowed through to the prices that KUB-Gas[1] realized during that quarter.

The discount on Russian gas came to an end on April 1, 2014 after protests that eventually led to a change in the government. Prices recovered, but rebel activity in eastern Ukraine caused its currency, the hryvnia ("**UAH**") , to fall from approximately 8 UAH/USD to nearly 16 UAH/USD by year end, and to over 33 UAH/USD in February 2015, before regaining some ground to its current level of 24 UAH/USD. As Serinus reports in US dollars, much of the recovery in gas prices was offset by the currency deterioration.

The steadily deteriorating security situation on the ground in Ukraine eventually led to the suspension of drilling and workover operations in the third quarter as the lines of the conflict moved close to the Olgovskoye and Makeevskoye Fields. Drilling resumed in October, but overall, the Company was unable to accomplish all of its planned capital program for the year. Even now, many of the service companies that formerly operated in Ukraine have not returned, limiting some of the operations that might be done such as stimulations.

As the Ukraine government struggled to cope with the geopolitical issues, it looked to shore up its own finances. Three new laws or regulations in particular materially impacted KUB-Gas and other private producers:

- Effective August 1, 2014, the royalty rates on natural gas and oil/liquids were increased to 55% and 45% (from 28% and 43%) respectively. The royalty is however calculated on the maximum official gas price set by the Government, and the private producers sell at a discount to that price. The result is that the effective royalty has been over 60%.
- On September 23, 2014, the National Bank of Ukraine imposed certain restrictions on foreign exchange transactions, which effectively prevented the Company from repatriating the cash flow from Ukraine and re-deploying it in other operations such as Tunisia and Romania.

[1] KUB-Gas LLC ("**KUB-Gas**") is Serinus' indirectly owned 70% subsidiary, which is the owner and operator of the Ukrainian licences

- In November 2014, the government passed three bills which effectively reserved a large portion of the natural gas market in Ukraine for the state oil company. This left private producers such as KUB-Gas, scrambling to find alternative creditworthy customers, and many were forced to shut in production and take lower prices for what they could sell. On March 31, 2015, the High Administrative Court of Ukraine upheld the rulings of two lower courts that these restrictions were illegal, and while sales volumes increased in April, a full market recovery has yet to occur.

Although Serinus was presented with a myriad of challenges, we continued to make progress on the things within our control with material development and exploration successes in Tunisia and Romania..

In Tunisia, the Winstar-12bis well was drilled during the second half, and commenced production in December 2014 at an initial rate of 635 barrels of oil equivalent per day ("**boe/d**"). After a clean up period of a few weeks, the choke size was increased and the rate climbed to over 1,000 boe/d in early January 2015, where it remains today.

The Winstar-13 well was spud on December 10, 2014 and reached its total depth of 3,781 metres in mid March 2015. The top target formation, the Upper Hamra, came in 30 metres higher than prognosis, and the well is currently being completed and tested. Given that the Oil Originally In Place for the Sabria Field is 350 million barrels, and our wells are only the 7th and 8th wells ever drilled into it, these results bode well for future development.

We are very excited by the results of our exploration program in Romania. The total program included two exploration wells, Moftinu-1001 and Moftinu-1002bis, and a 180 $km^2$ 3D seismic program. First processing of the seismic has been completed, and initial interpretation of the results indicates several new potential drilling locations. The better news is that Moftinu-1001 tested at a maximum flow rate of 7.4 MMcf/d, 19 bbl/d of condensate with only trace amounts of water. Analysis of the pressure build up data after the test did not indicate any reservoir boundaries, and management has increased its estimate of P50 recoverable gas volumes to over 17 Bcf from its previous estimate of 10.5 Bcf.

During a short test, Moftinu-1002bis averaged approximately 2.8 MMcf/d for 30 minutes, then declined to 245 Mcf/d over the following two hours. This was not unexpected as log analysis indicated that the porosity of the formation was considerably less than in Moftinu-1001, exacerbated by the use of very heavy mud required to control unstable shales and hole collapse during drilling. However, it has shown that there is movable gas in these zones and we now estimate that the original gas in place in this accumulation is 27 Bcf. Eventual recoverable volumes will of course depend on identifying suitable drilling and completion techniques to allow commercial production, and we are investigating alternative methods to stimulate the well and access the greater gas volumes beyond the near wellbore.

Despite the conflict and economic issues in Ukraine, Serinus experienced success there as well:

- The M-17 well, drilled during late 2013 and into 2014 commenced production on June 26, 2014 at an initial rate of 6 MMcf/d. As it cleaned up, the rate increased and it averaged 11.8 MMcf/d during the third quarter, and 11.4 MMcf/d in Q4.
- Drilling resumed in the last quarter of 2014 with the M-22 well. It encountered a total of six zones with gas potential, including the highly prolific S6 sand from which M-17 produces. It also has four deeper gas zones. Completion and testing is underway and we hope to announce results in the near future. M-22 is important in that if successful, it will establish commercial gas production on the southwest

side of the major bounding fault that runs through the Makeevskoye and Olgovskoye Licences, and open up a new exploration fairway.

- Production in Ukraine reached an all time high in October when KUB-Gas was producing gas at 1 million cubic metres per day (35.5 MMcf/d) despite having to shut in the Vergunskoye and Krutogorovskoye Fields in June. Those two fields are located approximately 8 km from the City of Lugansk, and are deep in territory currently controlled by the rebels. Their aggregate production accounted for less than 4% of KUB-Gas' total in Ukraine.

This last point deserves special mention: Our personnel in Ukraine have done an exemplary job of keeping the operations running over the past year under the most trying of circumstances. This was a period in which more than 80 employees and their dependents (over 400 people in total) were evacuated from Lugansk to Kharkiv, and our office building in Lugansk was vandalized and partially burned. We salute their dedication and courage.

**Outlook for 2015**

Due to the challenges stemming from lower commodity prices and the geopolitical situation in Ukraine described above, Serinus' 2015 capital program has been cut back. We are finishing certain projects that were already underway, but the board and management have decided to eliminate all other capital spending for the year in order to conserve capital..The projects that are being completed include:

- Completion, testing and tie-in of the WIN-13 well in the Sabria Field in Tunisia
- Completion and testing of Moftinu-1001 and 1002bis in Romania
- Completion, testing and tie-in of the M-22 well in the Makeevskoye Field in Ukraine
- Installation of field compression in the Olgovskoye Field in Ukraine

Serinus has an inventory of high quality exploration and development projects in all three countries, and when fiscal and geopolitical conditions improve, the Company will be well positioned to resume its growth trajectory. For now, operations in both Tunisia and Ukraine are cash flow positive, and management is examining all ways and means of further reducing costs and resuming our drilling program.

On the corporate side, we are disappointed that Manoj Madnani, a director since 2007 is not standing for re-election as a director. His insight and guidance over the past 8 years will be missed, and we wish him all the best in his new endeavors.

Finally, we would like to thank all of Serinus' employees for their efforts and dedication, our Board of Directors for their guidance, and our shareholders for their continued support.

Timothy M. Elliott
President & Chief Executive Officer