SERINUS
ENERGY

Dear Fellow Shareholders

The past year of 2016 remained a difficult year for the global oil and gas industry with prices of benchmark crude oil falling to their lowest levels in over ten years. January saw the bottom of the cycle with Brent touching US$27.88 and prices gradually recovered to exit the year at US$54.96. The sharply diminished commodity prices had a dramatic effect on the Company's cash flow and during the course of the year we were forced to shut-in the Sanhar field in Tunisia due to economic conditions. Dramatic fluctuations in global oil and gas benchmark prices have created an environment where the appropriate staffing and management of the business is most challenging. The Company has reacted to this environment by effecting significant cost reductions and refocussing the advancement of the business away from the riskier opportunities in the portfolio. We remain confident that the portfolio is robust and can grow efficiently under a variety of oil price scenarios.

Whilst 2016 was a dramatic year in the global oil and gas business it was also a highly transformative year for the Company. Several critical transformative events were enacted in 2016 that, we believe, will allow the Company to position itself for sustainable growth in a lower oil price environment. In 2016 a conclusion of the sale of the Company's Ukrainian assets was achieved, a process which began in late 2015 and was finalised in February 2016. These assets marked a real success for the Company but the difficult political and economic environment in the Ukraine meant that they were no longer suitable for the size of the business and the risk tolerance the business is capable of bearing. Proceeds from the sale of the Ukrainian assets were used to reduce the company's debt position, strengthen the balance sheet and allowed for continued G&A. Most importantly we believe that the technical and commercial experiences operating gas production in the Ukraine offer a key skill set for the operations of similar gas production in Romania.

In September of 2016 the Board of the Company made sweeping changes that resulted in the resignation of two executive directors, three non-executive directors and the retirement of the two senior management personnel. These changes offered the Company an opportunity to assess its position, its assets, the required finance to extract value from its assets and the proper composition of the team. Whilst no doubt such changes are disruptive it has offered the opportunity to progress the solid assets within the business using a different metric. The new management team has refocused the Company's efforts on our existing core assets and believes that there is sufficient untapped opportunity within those assets to allow prudent and cost focused capital allocation for the near term. Cost reductions are always difficult, especially when they involve staff reductions and 2016 was a painful year to make such cost reductions. The Company is now more cost effective and is better positioned to survive and grow within the context of current commodity prices. It is always worth paying homage to those who are no longer with the team but have built a Company with a strong suite of assets, Whilst the Serinus family is smaller, it is also better suited to the lower revenue environment in which the Company finds itself.

The Company's assets in Tunisia remain core to the Company. Production averaged 1,124 boe/d in 2016 and the associated revenue and cash flow provided a stable base to the Company that allowed further reduction of debt through scheduled principal repayments. Given the current underlying commodity prices, it has not been deemed prudent to allocate significant capital into Tunisia at this time. However, the Company remains confident that with a gradual increase in global crude oil prices that opportunities to enhance production and cashflow from our Tunisian assets can be progressed. Sabria remains a significant oilfield with limited amounts of drilling having been conducted over the years. The Company will look to prudently allocate capital to facilities and to lower costs as a means of increasing production and improving economic performance until such time as recovering oil prices allow for increased capital allocation.

In late October, the Company was able to secure the extension of the Satu Mare concession for another three years until 28 October 2019. This extension will allow the Company to advance opportunities that are similar to the Moftinu discoveries such that once the Moftinu gas development project is completed the Company can rapidly transition to extracting value from adjacent opportunities. The terms of the concession extension require that the Company drill two exploration commitment wells and either a third exploration commitment well or 120km2 of 3D seismic. Locations of the two exploration commitment wells have been determined and the acquisition of long-lead items and site preparation is underway. It is expected that these two exploration commitment wells, Moftinu-1003 and Moftinu-1004, will be drilled by mid-2018. Throughout 2016 the Company continued to advance its plans for the Moftinu Gas Development project. This planning came to fruition in the latter quarter of 2016 and tendering for an EPC contract for the construction of the project was initiated. That planning is now in the execution phase and the Company is eager to advance and complete a 15 mmscf/d gas plant, associated gathering system and a sales gas pipeline. It is expected that this project will be completed and flow first gas in the first quarter of 2018. Through the hard work of our technical team we have been able to increase the chance of development, as reported by our independent resource report, to 90%. Having executed the EPC contract for this development in 2017 we are now starting construction and moving towards revenue and cashflow. Serinus is now in the process of enhancing our team in Romania such that we will be in a position with both the asset and the personnel to operate the gas project upon completion and to further our exploration activities on the Satu Mare Concession.

In late 2016 and early 2017 the Company made the decision to increase the equity in the business. A use of proceeds was created that would allow the company to realise high returning assets, sustainable in a lower commodity price environment. The Company also sought to find lower risk means of allocating capital that would allow production growth in Tunisia and also allow the development of the Moftinu gas development project in Romania. An extensive marketing campaign was conducted with the support of our major shareholders and the Company was able to raise US$18 million of new equity, net of costs. This fundraising allowed the Company to introduce shareholders to a new management team; one that is highly focused on risk adjusted returns and extracting value from our existing assets. Both our fundraising efforts and the articulation of a more risk managed investment profile were very well received by existing and new shareholders.

Outlook for 2017

We continue to believe that 2017 will be a transformative year for the Company. Our most important priority remains to deliver the Moftinu Gas Development project on time and on budget. We believe we are well positioned to do that. Our technical teams are rapidly turning to focus on additional opportunities in the Satu Mare concession and will advance these opportunities such that upon completion of the Moftinu project we will be in a position to rapidly move to our next opportunities.

Tunisia remains difficult both in terms of the underlying commodity prices as well as the social issues that beset the south of the Country. Serinus aims to be a responsible corporate citizen and supports our workers whilst remaining committed to the creation of shareholder value. We are in constant dialogue with the local authorities and our partners in Tunisia and we look forward to increasing our capital allocation, our level of work and our production. By reducing costs in our operated assets we believe we are a stronger business, able to offer more secure employment and better able to position our efforts for future growth.

Shareholders, your Company has a strong based of core assets. These assets are now positioned to be economically robust at lower commodity prices. The Company has adequate finance to move the Moftinu project to revenue and cashflow and capital to allocate to production enhancements in Tunisia. It is no doubt challenging times for many in the oil and gas world but we remain confident that with rigorous cost control and capital allocation your company can grow and prosper, even at the current commodity prices. We are confident of the progress we can achieve in the coming year and look forward to the commissioning of the Moftinu gas plant.

Jeffrey Auld
President & Chief Executive Officer