



# Serinus Energy plc

First Quarter 2019 Interim Report and Accounts  
(US dollars)

## Q1 2019 HIGHLIGHTS

### Operational

- Commercial production and gas sales from the Moftinu gas facility commenced on 25 April 2019
- During the first quarter of 2019, Serinus completed the Moftinu gas facility in Romania. The delayed Low Temperature Separation (“LTS”) unit and the Triethylene Glycol (“TEG”) unit (the “Units”) were delivered to Romania on 28 January 2019 at which point it was determined that the fabrication of the Units was much more incomplete than anticipated. Further work was undertaken to enable these Units to be operational prior to installation and testing at the facility site
- Production from the Tunisian operations was 317 boe/d for the first quarter of 2019 (2018 - 380 boe/d)
- All production in 2018 was from the Sabria field in Tunisia
- The reopening of the Chouech Es Saida field in southern Tunisia commenced late in the quarter, having been shut in since February 2017

### Financial

- During the quarter, the Company undertook a placing raising gross proceeds of \$3.0 million, by issuing 21,553,583 shares at a price of 10.5 pence per share. Attached to each share issued is 0.105 warrants, with each full warrant entitling the holder to purchase one ordinary share at an exercise price of 10.5 pence per share, exercisable for a period of 24 months after closing. The warrants must be approved by a special resolution of the Company’s shareholders, at the Annual General Meeting on 16 May 2019, in order to disapply pre-emption rights that would otherwise apply to the exercise of the warrants, before they can be exercised.
- \$1.7 million received in revenue (gross of royalties) in the period
- Realised oil price averaged \$60.90 per bbl for the quarter (2018 - \$66.00 per bbl), a decrease of 8%
- Capital expenditures of \$1.1 million were incurred for the quarter and were primarily focused on the final phase of the construction of the Moftinu gas facility
- Funds from (used in) operations amounted to an outflow of \$0.1 million in 2019 (2018 - inflow of \$2.6 million), with the decrease due to insurance recoveries in 2018 attributable to the well incident in December 2017

## OPERATIONAL UPDATE

During the first quarter of 2019, the Group completed the construction of the gas facility in Romania. Commercial sales commenced on 25 April 2019 with production from the Moftinu 1003 well flowing through the gas plant into the sales gas pipeline. The processed gas meets the water dew point and hydrocarbon dew point specifications set by the Romanian National Gas Transportation Company, Transgaz. The Company will follow a conventional start-up program whereby production parameters and plant performance will be stabilized, after which gas from the Moftinu 1007 well will also be brought onto production and flowed through the gas plant.

The construction of the gas facility has been severely delayed due to the delay in receiving the Units from Canada, the Units arrived at the EPC Contractors yard on 28 January 2019. After unpacking and reassembling the Units, it was determined that the fabrication of the Units was much more incomplete than expected. It was discovered that numerous components were missing from the Units, some instruments were not properly calibrated to design specifications, and some fabrication work had to be redone to correct subpar fabrication work. The Group and the EPC Contractor worked to complete the remedial work, test the Units, move the Units to the site and install before full testing and commissioning could commence.

Given the delay in the fabrication and delivery of the Units, the Group has filed a suit for more than US\$25.4 million in damages against Aval Engineering Inc. of Alberta and Kocken Energy Systems Incorporated of Nova Scotia and certain of their directors and officers.

In Tunisia, our local team commenced the reopening of the Chouech Es Saida field in southern Tunisia in late Q1 2019. Initial steps include the re-hiring of employees, road clearing, inspection of down hole equipment and consumable inventories, tendering for services and site inspections. These procedures are ongoing, with work to replace the pumps in wells due to commence during the second quarter with production anticipated in Q3 2019.

## OUTLOOK

### Romania

The outlook for Romania remains strong. The Moftinu Gas Development project offers a significant opportunity for the Group to materially increase both its production and its associated cashflow. Production commenced on 25 April 2019. The Company will follow a conventional start-up program whereby production parameters and plant performance will be stabilized, after which, gas from the Moftinu 1007 well will also be brought onto production and flowed through the gas plant. During the start-up and stabilization period gas will be sold on a daily basis. Following the start-up period, and once gas volumes are more regular, gas will be sold on a monthly basis as per the previously announced Gas Sales Agreement. Natural gas prices secured on a daily basis were approximately \$6 per mcf in April.

The Group has also commenced permitting for its planned 3D seismic survey over a portion of the Satu Mare Concession. This survey is scheduled to be undertaken in Q3/Q4 2019.

The Group also expects to drill the Moftinu-1004 well. This well is an appraisal well designed to provide additional gas to the Moftinu gas plant. Due to the delays in production from the Moftinu plant, it is expected that this well will be drilled in early 2020. This well will allow the Moftinu Gas Plant to operate at full capacity and to extend the plateau of production further.

The government of Romania introduced emergency legislation in December 2018 to cap the price at which gas producers sell their gas for purposes of household consumption. This legislation caps the price at 68 RON/Mwh (approximately \$5/mcf). In late March 2019, the legislation was amended to delay the effective date to 1 May 2019 and to clarify that the price cap is only applicable to certain producers. This is good news for Serinus as the legislation is not applicable to the Group. The European Union Commission has formally started infringement proceedings against Romania as this law violates EU directives regarding the natural gas market.

### Tunisia

Operations in Tunisia are ramping up after an extended period of stagnation due to the difficult social conditions in the country. Our local team commenced the reopening of the Chouech Es Saida field in southern Tunisia in late Q1 2019. Initial steps include the re-hiring of employees, road clearing, inspection of down hole equipment and consumable inventories, tendering for services and site inspections. These procedures are ongoing, with work to replace the pumps in wells due to commence during the second quarter with production anticipated in Q3 2019.

The Group also expects to deploy additional capital to the Sabria field in the form of a re-entry into a well that was mechanically damaged during completion many years ago. The Group views activities like this as excellent capital allocation with low exploration risk and technical risk that has been mitigated over the years by improving technology. The Sabria field has been producing, since its discovery, on simple primary production. Serinus is considering applying artificial lift to this field. This capital investment work at Sabria is anticipated to start in late 2019.

## FINANCIAL REVIEW

### Liquidity, Debt and Capital Resources

Due to the delay in production from Romania, in March 2019 the Group undertook a placing to raise gross proceeds of \$3.0 million, by issuing 21,553,583 shares at a price of 10.5 pence per share. Attached to each share issued is 0.105 warrants, with each full warrant entitling the holder to purchase one ordinary share at an exercise price of 10.5 pence per share, exercisable for a period of 24 months after closing. The warrants must be approved by special resolution of the shareholders at the Annual General Meeting on 16 May 2019 before they can be exercised.

The proceeds of the equity issuance were used to fund a Senior debt repayment to the European Bank of Reconstruction and Development ("EBRD") due 31 March 2019 of \$2.9 million.

In Romania, the Group invested \$1.1 million primarily to complete the construction of the gas plant from which commercial production commenced 25 April 2019.

In Tunisia, production from the Sabria field continued during the quarter and with crude oil prices in 2019, Tunisia was a positive cash flow generating business unit during the quarter. Cash flow generation in Tunisia remains challenging given the current production level. Given the Group's focus on Romania, there was minimal capital expenditure in

Tunisia during the quarter. The restart of the Chouech Es Saida field commenced in late Q1 2019 and the Group plans to undertake a capital investment program in Sabria which will enhance production and cash flow generation.

Funds from operations decreased year over year to an outflow of \$0.1 million in 2019 as compared to an inflow of \$2.6 million in 2018. Taking into consideration the movement in working capital, the cash flows from operating activities in Q1 2019 were \$2.9 million (2018 – outflow of \$0.9 million).

Delays with achieving first production in Romania has resulted in delayed operating cash flows, tightening the ability of the Group to meet cash obligations as they come due, and breach of financial covenants associated with the debt held with the European Bank of Reconstruction and Development (“EBRD”), as well as contributing to the delay of capital investment programmes in Tunisia, the implications of which are further discussed below.

	31 March	31 December
(\$000)	2019	2018
Current assets	11,389	13,480
Current liabilities	(25,781)	(28,918)
Working Capital deficit	(14,392)	(15,438)

The working capital deficit of the Group at 31 March 2019 was \$14.4 million. Included in current liabilities at 31 March 2019 was \$2.8 million of EBRD debt, accounts payable of \$13.8 million, a decommissioning provision of \$8.7 million and a lease provision of \$0.4 million. Included in accounts payable was \$8.2 million relating to Brunei. Of this amount, \$2.2 million relates to a dispute with a drilling company dating back to 2013 on Block L and the remaining \$6.0 million relates to work commitments on the Brunei Block M production sharing agreement which expired August 2012. Current liabilities also include \$2.8 million relating to decommissioning provisions in Brunei and Canada, and \$5.9 million relating to Tunisia. The obligations in Canada are offset by cash held on deposit as restricted cash of \$1.1 million in current assets.

Given the tight operating conditions, the Group continues to actively manage its costs.

The Group renegotiated its EBRD debt in late 2017, which provided a holiday from making principal repayments on the Senior Loan until 2019 and a holiday from covenants until September 2018, to allow a period of time to develop Romania and achieve first production. The Senior Loan is repayable in 2019, with the first repayment of \$2.7 million plus interest having been made in March 2019. The remaining \$2.7 million plus interest is due to be repaid on 30 September 2019.

On 29 March 2019, the Group received a waiver from the EBRD formally waiving compliance with the financial covenants for the period ended 31 March 2019.

Given the above noted delays there are material uncertainties as to whether the Group can meet all its cash obligations as they come due. The Group's ability to settle its obligations as they come due is dependent on its ability to generate future cash flows from operations and/or obtain the necessary financing. In addition, given the above noted delays, our internally prepared forecast also indicates non-compliance with financial covenants in future quarters. The key assumptions in the base case forecast are the performance of the gas facility and wells in Romania, the timing and performance of the Chouech Es Saida field in Tunisia once reopened, and commodity prices. The Group continues to closely monitor the Group's covenant compliance in respect of its debt facilities.

## Financial Review – Three months ended 31 March 2019

### FUNDS FROM OPERATIONS

The Group uses funds from operations as a key performance indicator to measure the ability of the Group to generate cash from operations to fund future exploration and development activities.

The following table is a reconciliation of funds from operations to cash flow from operating activities:

(\$000)	Three months ended 31 March	
	2019	2018
Cash flow from (used in) operations	2,870	(931)
Changes in non-cash working capital	(2,910)	3,568
Funds from (used in) operations	(40)	2,637
Funds from (used in) operations per share <sup>(1)</sup>	0.00	0.02

<sup>(1)</sup> Based on average shares outstanding in the period

The decrease in funds from operations in 2019 was primarily attributable to insurance proceeds of \$2.6 million recognized in 2018 relating to the well incident in December 2017. Funds from operations generated in Tunisia were \$0.7 million, Romania \$0.1 million and funds used corporately were \$0.8 million.

#### PRODUCTION

	Three months ended 31 March	
	2019	2018
Crude oil (bbl/d)	230	276
Natural gas (Mcf/d)	522	626
Total (boe/d)	317	380
% oil weighting	73%	73%
% gas weighting	27%	27%

Production is exclusively from the Sabria field in Tunisia.

Production volumes of 317 boe/d were down from 380 boe/d in Q1 2018 due to natural production declines from primarily the Win-13 and Win-12 wells in Sabria. The Company performed a slickline operation in Q2 2018 to investigate the Win-12bis well and may perform a well intervention to improve performance in the future.

#### OIL AND GAS REVENUE

(\$000)	Three months ended 31 March	
	2019	2018
Oil revenue	1,260	1,638
Gas revenue	443	573
Total revenue	1,703	2,211
Oil revenue (%)	74%	74%
Gas revenue (%)	26%	26%
Oil (\$/bbl)	60.90	66.00
Gas (\$/Mcf)	9.42	10.17
Average realized price (\$/boe)	59.70	64.63

Revenue is currently generated exclusively from the Sabria field in Tunisia. The Group is required to sell 20% of its annual crude oil production from the Sabria concession into the local market, which is sold at an approximate 10% discount to the price obtained on its other crude sales. The remaining crude oil production is sold to the international market, through which the Group has a marketing agreement with Shell International Trading and Shipping Company Limited ("Shell agreement").

Oil and gas revenues totaled \$1.7 million for Q1 2019, as compared to \$2.2 million in the comparable period of 2018. The decrease is attributable to an 8% decrease in the average realized price and 17% decrease in production.

Crude oil realized prices decreased to \$60.90 per bbl in 2019, which reflects the decrease in Brent price from \$66.80 per bbl in Q1 2018 to \$63.17 per bbl in Q1 2019. The Group realized 96% of the Brent price during Q1 2019, as compared to 99% in the comparable period of 2018.

The average realized price for natural gas decreased to \$9.42 per mcf as compared to the comparable period in 2018. Natural gas prices are nationally regulated and in Sabria are tied to the current month average of high sulphur heating oil.

#### ROYALTIES

(\$000)	Three months ended 31 March	
	2019	2018
Royalties	165	213
Royalties (\$/boe)	5.78	6.23
Royalties (% of revenue)	9.7%	9.6%

Tunisian royalties are based on individual concession agreements. In Sabria, the royalty rate varies depending on a calculation of cumulative revenues, net of taxes, as compared to cumulative investment in the concession, known as the "R factor". As the R factor increases, so does the royalty percentage to a maximum rate of 15%. During 2019, the royalty rate in the Sabria concession was 10% for oil and 8% for gas. In the Chouech Es Saida concession, royalty rates are flat at 15%.

Royalties decreased due to the decrease in revenue. The effective royalty rate increased slightly from 9.6% in Q1 2018 to 9.7% in Q1 2019.

#### PRODUCTION EXPENSES

(\$000)	Three months ended 31 March	
	2019	2018
Production expense – Tunisia	629	728
Production expense – Canada	12	11
Production expense – Total	641	739
Tunisia production expense (\$/boe)	22.05	21.28

Tunisian production expenses for Q1 2019 decreased by 14% to \$0.6 million as compared to \$0.7 million in the comparable period of 2018. The decrease in 2019 was due lower Tunisian office costs driven by lower personnel expenses and professional services, partially offset by lower recoveries from the working interest partner in Sabria.

Canadian production expenses relate to the Sturgeon Lake assets, which are not producing and are incurring minimal operating costs to maintain the property.

#### OPERATING NETBACK

Serinus uses operating netback as a key performance indicator to assist management in understanding Serinus' profitability relative to current market conditions and as an analytical tool to benchmark changes in operational performance against prior periods. Operating netback consists of petroleum and natural gas revenues less direct costs consisting of royalties and production expenses. Netback is not a standard measure under IFRS and therefore may not be comparable to similar measures reported by other entities.

	Three months ended 31 March 2019			Three months ended 31 March 2018		
	Oil (bbl)	Gas (Mcf)	Total (boe)	Oil (bbl)	Gas (Mcf)	Total (boe)
Production volume	230	522	317	276	626	380
Realized price	60.90	9.42	59.70	66.00	10.17	64.63
Royalties	(6.28)	(0.74)	(5.78)	(6.73)	(0.82)	(6.23)
Production expense	(22.47)	(3.49)	(22.05)	(21.72)	(3.35)	(21.28)
Operating netback	32.15	5.19	31.87	37.55	6.00	37.12

The decrease in operating netback to \$31.87 per boe in Q1 2019 was primarily due to decreased realized prices.

#### GENERAL AND ADMINISTRATIVE EXPENSE

(\$000)	Three months ended 31 March	
	2019	2018
G&A expense	673	698
G&A expense (\$/boe)	23.59	20.40

General and administrative (“G&A”) costs incurred by the Group are expensed, with certain costs directly related to exploration and development assets being capitalized or reported as production costs. The G&A expense reported is on a net basis, representing gross G&A costs incurred less recoveries of those costs presented as capital or production costs.

G&A costs for Q1 2019 were consistent with Q1 2018. On a per boe basis G&A expenses increased due to lower production volumes in Q1 2019.

#### SHARE-BASED COMPENSATION

(\$000)	Three months ended 31 March	
	2019	2018
Stock-based compensation	219	129
Stock-based compensation (\$/boe)	7.68	3.77

The increase in share-based compensation expense recognized in Q1 2019 as compared to Q1 2018 is primarily due to stock options issued in December 2018.

#### DEPLETION, DEPRECIATION AND IMPAIRMENT

(\$000)	Three months ended 31 March	
	2019	2018
Depletion and depreciation – Tunisia	371	414
Depletion and depreciation – Romania	25	1
Depletion and depreciation – Canada	166	40
	562	455
Tunisia depletion and depreciation (\$/boe)	13.01	12.10

Depletion and depreciation expense is computed on a concession by concession basis considering the net book value of the concession, future development costs associated with the reserves as well as the proved and probable reserves of the concession.

Tunisia depletion and depreciation expense for Q1 2019 decreased to \$0.4 million, due to lower production in 2019, as compared to 2018, partially offset by a slightly higher depletion rate per boe. On a per boe basis, the depletion rate was \$13.01 per boe for 2019, compared to \$12.10 per boe in 2018.

Depletion and depreciation in Canada includes \$0.1 million representing the depreciation of right-of-use assets which, effective 1 January 2019, is required to be reported on the statement of financial position. Refer to note 3 of the accounts for further information.

#### INTEREST AND ACCRETION EXPENSE

(\$000)	Three months ended 31 March	
	2019	2018
Interest expense	857	714

Interest expense for Q1 2019 increased to \$0.9 million, due to higher debt balances (due to interest accrued on the convertible loan) and higher interest rates on the loans in 2019, due to an increase in LIBOR. The average debt

balance included in the interest expense calculation for the first quarter of 2019 was \$33.0 million compared to \$30.5 million in the comparable period of 2018.

#### SHARE DATA

As at the date of issuing this report, the following are the options outstanding and changes to directors' shares owned since 31 March 2019, up to the date of this report.

Name of Director	Options held at 31 March and 15 May 2019	Shares held at 31 December 2018	Change in ownership	Shares held at 31 March 2019 and 15 May 2019
<b>Executive Directors:</b>				
Jeffrey Auld	7,000,000	22,197	-	22,197
Tracy Heck	4,950,000	-	-	-
<b>Non-Executive Directors:</b>				
Lukasz Redziniak	-	-	-	-
Jim Causgrove	100,000	-	-	-
Eleanor Barker	100,000	100,000	-	100,000
Evgenij Iorich <sup>(a)</sup>	100,000	3,415	-	3,415
Dawid Jakubowicz	-	-	-	-
	<b>12,250,000</b>	<b>125,612</b>	<b>-</b>	<b>125,612</b>

<sup>(a)</sup> Mr. Iorich holds a position with Pala Investments, which is related to Pala Assets Holdings Limited ("Pala"). Pala owned 11,266,084 Shares as at 31 March 2019. By virtue of his position with Pala Investments, Mr. Iorich is deemed to have direction over such Shares in addition to those Shares that are shown above.

As of the date of issuing this report, management is aware of the following shareholders holding more than 5% of the ordinary shares of the Company, as reported by the shareholders to the Company: Kulczyk Investments S.A. 38.77%, Marlborough Fund Managers 10.64% and JCAM Investments Ltd 7.89%.



**Serinus Energy plc**  
**Condensed Consolidated Interim Statement of Comprehensive Income**  
**(US 000s) (unaudited)**

	Note	Three months ended	
		31 March	
		2019	2018
Revenue, net of royalties	5	1,538	1,998
Cost of sales			
Production expenses		(641)	(739)
Depletion and depreciation	10	(562)	(455)
Total cost of sales		(1,203)	(1,194)
Gross profit		335	804
Total administrative expenses		(673)	(698)
Share-based payment expense	6	(219)	(129)
Well incident recovery		-	2,592
Listing costs		-	(386)
Operating (loss) profit		(557)	2,183
Finance expense	7	(1,427)	(728)
(Loss) profit before tax		(1,984)	1,455
Taxation		(347)	(453)
(Loss) profit for the period		(2,331)	1,002
Earnings (loss) per share:			
Basic and diluted	8	(0.01)	0.01

The accompanying notes on pages 13 to 22 form part of the condensed consolidated interim financial statements

**Serinus Energy plc**  
**Condensed Consolidated Interim Statement of Financial Position**  
**(US 000s) (unaudited)**

<b>As at</b>	<b>Note</b>	<b>31 March 2019</b>	<b>31 December 2018</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	108,954	107,541
<b>Current assets</b>			
Restricted cash		1,079	1,054
Trade receivables and other	11	7,117	10,143
Cash and cash equivalents		3,193	2,283
<b>Total current assets</b>		<b>11,389</b>	<b>13,480</b>
<b>Total assets</b>		<b>120,343</b>	<b>121,021</b>
<b>Equity</b>			
Share capital	12	377,921	375,208
Warrants	13	97	-
Share-based payment reserve		23,526	23,307
Accumulated deficit		(387,504)	(385,173)
<b>Total equity</b>		<b>14,040</b>	<b>13,342</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Decommissioning provision		36,880	36,573
Deferred tax liability		13,441	13,154
Long-term debt	14	28,494	27,667
Other provisions	15	1,707	1,367
<b>Total non-current liabilities</b>		<b>80,522</b>	<b>78,761</b>
<b>Current liabilities</b>			
Decommissioning provision		8,716	8,696
Current portion of long-term debt	14	2,793	5,624
Other provisions	15	435	-
Accounts payable and accrued liabilities		13,837	14,598
<b>Total current liabilities</b>		<b>25,781</b>	<b>28,918</b>
<b>Total liabilities</b>		<b>106,303</b>	<b>107,679</b>
<b>Total equity and liabilities</b>		<b>120,343</b>	<b>121,021</b>

The accompanying notes on pages 13 to 22 form part of the condensed consolidated interim financial statements

These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue on 15 May 2019 and were signed on its behalf by:

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ELEANOR BARKER  
DIRECTOR, CHAIR OF THE AUDIT COMMITTEE

\_\_\_\_\_  
JEFFREY AULD  
DIRECTOR, PRESIDENT AND CEO

**Serinus Energy plc**  
**Condensed Consolidated Interim Statement of Shareholder's Equity**  
**(US 000s) (unaudited)**

	Note	Share capital	Warrants	Share-based payment reserve	Accumulated deficit	Total
Balance at 31 December 2017		362,534	-	22,487	(381,317)	3,704
Comprehensive income for the period		-	-	-	1,002	1,002
Adjustment on initial application of IFRS 9		-	-	-	1,034	1,034
<i>Transactions with equity owners</i>						
Share-based payment expense	6	-	-	129	-	129
<b>Balance at 31 March 2018</b>		<b>362,534</b>	<b>-</b>	<b>22,616</b>	<b>(379,281)</b>	<b>5,869</b>
Balance at 31 December 2018		375,208	-	23,307	(385,173)	13,342
Comprehensive loss for the period		-	-	-	(2,331)	(2,331)
<i>Transactions with equity owners</i>						
Share issue, net of issue costs	12,13	2,713	97	-	-	2,810
Share-based payment expense	6	-	-	219	-	219
<b>Balance at 31 March 2019</b>		<b>377,921</b>	<b>97</b>	<b>23,526</b>	<b>(387,504)</b>	<b>14,040</b>

The accompanying notes on pages 13 to 22 form part of the condensed consolidated interim financial statements

**Serinus Energy plc**  
**Condensed Consolidated Interim Statement of Cash Flows**  
**(US 000s) (unaudited)**

		<b>Three months ended</b>	
		<b>31 March</b>	
	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>			
(Loss) profit for the period		(2,331)	1,002
Items not involving cash:			
Depletion and depreciation	10	562	455
Accretion expense	7	307	260
Share-based payment expense	6	219	129
Foreign exchange loss (gain) unrealized		40	(414)
Current tax expense		60	132
Deferred tax expense		287	321
Interest expense	7	958	776
Income taxes paid		(142)	-
Expenditures on decommissioning liabilities		-	(24)
Funds (used in) from operations		(40)	2,637
Changes in non-cash working capital	16	2,910	(3,568)
Cashflows from (used in) operating activities		2,870	(931)
<b>Financing activities</b>			
Ordinary shares issued	12	3,000	-
Share issue costs	12	(190)	-
Repayment of long-term debt	16	(2,700)	-
Interest and financing fees	16	(235)	(204)
Lease payments	15	(129)	-
Cashflows used in financing activities		(254)	(204)
<b>Investing activities</b>			
Property, plant and equipment expenditures, net	10	(1,680)	(3,036)
Change in restricted cash		(5)	(5)
Cashflows used in investing activities		(1,685)	(3,041)
Impact of foreign currency translation on cash		(21)	394
Change in cash and cash equivalents		910	(3,782)
Cash and cash equivalents, beginning of year		2,283	7,252
Cash and cash equivalents, end of period		3,193	3,470

The accompanying notes on pages 13 to 22 form part of the condensed consolidated interim financial statements

**Serinus Energy plc**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended 31 March 2019 and 2018**  
(US 000s, unless otherwise noted)

**1. General information**

Serinus Energy plc (the “Company”) and its subsidiaries (“Serinus” or the “Group”) is principally engaged in the exploration for and development of oil and gas properties in Tunisia and Romania. The Company is incorporated under the Companies (Jersey) Law 1991. The Company’s head office and registered office is located at 28 Esplanade, St. Helier, Jersey, JE1 8SB.

Serinus is a publicly listed company whose ordinary shares are traded under the symbol “SENX” on AIM and “SEN” on the WSE. Kulczyk Investments, S.A. (“KI”) holds a 38.77% investment in Serinus as of 31 March 2019.

The condensed consolidated interim financial statements for Serinus include the accounts of the Company and its subsidiaries for the three months ended 31 March 2019 and 2018. These condensed consolidated interim financial statements have not been audited or reviewed by the Group’s auditor.

**2. Basis of presentation**

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and their interpretations issued by the International Accounting Standards Board (“IASB”) as adopted by the European Union (“EU”) but do not include all information required for full annual financial statements.

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

**Going concern**

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

The Group meets its day-to-day working capital requirements from net operating cash flows, cash balances, equity, and fully drawn debt facilities (Senior and Convertible loans from the EBRD of \$2.7 million and \$29.9 million respectively (see note 14)). As at 30 April 2019 the Group had cash balances of \$2.4 million.

The Group is faced with financial difficulties stemming from the delay in commencing production in Romania. Due to the continued focus on finalization of the gas plant, the reopening of the Choueche Es Saida field in southern Tunisia has been delayed with the process commencing late in the first quarter of 2019. The resulting impact of the delay in the Romanian production and the delay in Tunisian plans has severely impacted the Group’s planned cash flows.

Equity was issued in March 2019, raising net proceeds of \$2.8 million, to bridge a short-term financing need to fund a scheduled debt repayment on the Senior loan, which was paid on 29 March 2019.

The Group’s \$2.7 million Senior loan is due to be repaid on 30 September 2019. The Group’s \$29.9 million convertible loan accumulates interest to 30 June 2020 at which point the outstanding amount is repayable in four equal instalments on 30 June 2020, 2021, 2022 and 2023 and interest after 30 June 2020 is to be paid annually on the loan repayment dates. Both loans are subject to covenants. As at 31 March 2019, the Group was not in compliance with the consolidated debt to EBITDA covenant or the debt service coverage ratio for the three months ended 31 March 2019. On 29 March 2019, the Group received a waiver from the EBRD formally waiving compliance with these covenants for the period ended 31 March 2019. The implication of this waiver is that the debt repayments will follow their original scheduled repayment terms and the bank will not be acting on its security as a result of the breach.

In assessing the Group’s ability to continue as a going concern, the Directors have prepared base and sensitized cash flow forecasts for a period in excess of 12 months from the date of authorization of these financial statements. The key assumptions in the base case forecasts are the performance of the gas facility and wells in Romania, the timing and performance of the Choueche Es Saida field in Tunisia once reopened, and commodity prices

Base case forecasts indicate that the Group will breach the EBRD covenants in future quarters, the result of which is that the Senior and Convertible loans will become repayable on demand at the discretion of the bank.

**Serinus Energy plc**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended 31 March 2019 and 2018**  
(US 000s, unless otherwise noted)

The Directors intend to seek waiver of those covenants and the continued availability of those existing loan facilities represents a material uncertainty.

Given the above noted delays there are material uncertainties as to whether the Group can meet all its cash obligations as they come due. The Group's ability to settle its obligations as they come due is dependent on its ability to generate future cash flows from operations and/or obtain the necessary financing.

The Directors consider that the the ability to generate sufficient future cash flows from operations to meet obligations as they come due and the continued availability of the existing facilities, but with forecast potential breaches of loan covenants, represents material uncertainties that may cast significant doubt on the ability of the Group to continue as a going concern. These condensed consolidated interim financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Group were unable to continue as a going concern.

### 3. Significant accounting policies

Except as described below, the condensed consolidated interim financial statements have been prepared following the same basis of measurement, functional currency and accounting policies and methods of computation as described in the notes to the consolidated financial statements for the year ended 31 December 2018.

#### Changes to accounting policies

##### IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), which requires entities to recognize assets and lease obligations in the statement of financial position. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets (less than \$5,000) are exempt from the requirements and may continue to be treated as operating leases. Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue and what assets would be recorded.

Serinus adopted IFRS 16 on 1 January 2019, using the modified retrospective transition approach. Under the modified retrospective approach, the measurement of the right-of-use assets are equal to the lease liabilities immediately before the transition date with no impact on retained earnings. The cumulative effect is recognized at the initial transition date with no comparative information. The main changes are explained below.

#### i. Significant accounting policies

##### **Leases**

Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are classified as leases. Upon initial recognition, right-of-use assets are measured at cost, which comprises the amount of the initial measurement of the lease liability, lease payments made at or before the commencement date, any initial direct costs and an estimate of dismantling and restoration costs. Lease liabilities are measured at the present value of the lease payments using the interest rate implicit in the lease, or the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined.

Serinus has taken recognition exemptions for leases that are short-term and leases for which the underlying asset is of low value. Short-term leases are defined as a lease that, at the commencement date, has a lease term of 12 months or less. An underlying asset can only be of low value if the lessee can benefit from the use of the underlying asset on its own, the underlying asset is not highly dependent or interrelated with other assets and the underlying asset has a value, when new, of \$5,000 or less. Lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term in the statement of comprehensive income.

#### ii. Impact from change in accounting policy

Operating lease payments were previously recorded in administrative expenses in the statement of comprehensive income. Under IFRS 16, right-of-use assets and lease liabilities are recognized in the statement of financial position for contracts that are classified as leases. Right-of-use assets are included in property, plant and equipment and depreciated on a straight-line basis over the lease term.

**Serinus Energy plc**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended 31 March 2019 and 2018**  
(US 000s, unless otherwise noted)

Depreciation of the right-of-use assets is included in depletion and depreciation expense in the statement of comprehensive income. Lease liabilities are included in other provisions at their net present value and accreted until the end of the lease term. Accretion of lease liabilities is recorded as interest expense and included in finance expense in the statement of comprehensive income.

**4. Use of estimates and judgments**

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements are described in note 4 to the consolidated financial statements for the year ended 31 December 2018. There has been no change in these areas during the three months ended 31 March 2019.

**5. Revenue, net of royalties**

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2019</b>	<b>2018</b>
Petroleum and natural gas revenues	1,703	2,211
Royalties	(165)	(213)
Revenue, net of royalties	1,538	1,998

The Group's revenue was entirely generated in Tunisia for the three months ended 31 March 2019 and 2018 and was based on Brent crude oil index pricing. For the three months ended 31 March 2019 and 2018 the Group had three customers. The Group's contract with Shell is for a period of five years beginning 2016, while the Group's contracts for local sales in Tunisia are generally for the period of the concession.

As at 31 March 2019, the receivable balance related to contracts with customers, included within "accounts receivable" is \$1.7 million (31 December 2018 - \$1.9 million). The disaggregation of revenue by major products and geographical market is included in the segment note (see note 9).

**6. Share-based payment expense**

A summary of the changes to the option plans are presented below:

**(a) CAD denominated options**

	<b>Three months ended</b>		<b>Year ended</b>	
	<b>31 March 2019</b>		<b>31 December 2018</b>	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Balance, beginning of year	300,000	0.37	9,933,000	0.36
Forfeited	-	-	(1,043,000)	0.37
Converted to GBP	-	-	(8,590,000)	0.36
Balance, end of period	300,000	0.37	300,000	0.37

As at 31 March 2019 there were 300,000 options outstanding to non-executive directors with a weighted average contractual life of 3.3 years and a weighted average exercise price of CAD \$0.37. As at 31 December 2018 there were 300,000 options outstanding to non-executive directors with a weighted average contractual life of 3.6 years and a weighted average exercise price of \$0.37.

**Serinus Energy plc**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended 31 March 2019 and 2018**  
(US 000s, unless otherwise noted)

**(b) GBP denominated options**

	Three months ended 31 March 2019		Year ended 31 December 2018	
	Number of options	Weighted average exercise price (GBP)	Number of options	Weighted average exercise price (GBP)
Balance, beginning of year	14,793,000	0.18	-	-
Granted	-	-	6,203,000	0.15
Converted from CAD	-	-	8,590,000	0.20
Balance, end of period	14,793,000	0.18	14,793,000	0.18

  

Exercise price (GBP)	Options outstanding	Options exercisable	Weighted average contractual life (years)
£0.14 - £1.00	14,743,000	6,081,001	6.2
£1.01 - £2.00	50,000	50,000	0.6
	14,793,000	6,131,001	6.2

**7. Finance expense**

	Note	Three months ended 31 March	
		2019	2018
Interest expense on debt	16	857	714
Accretion on decommissioning provision		307	260
Amortization of debt costs	16	63	65
Amortization of debt modification	16	11	11
Interest expense on lease liabilities	15	30	-
Bank charges		3	3
Interest income		(6)	(17)
Foreign exchange loss (gain)		162	(308)
		1,427	728

**8. Loss per share**

(US 000s, except per share amounts)	Three months ended 31 March	
	2019	2018
(Loss) profit for the period	(2,331)	1,002
Weighted average shares outstanding - basic	220,193	150,652
Effect of dilutive securities <sup>(1)</sup>	-	130
Weighted average shares outstanding - diluted	220,193	150,782
(Loss)/ earnings per share – basic and dilutive	(0.01)	0.01

<sup>(1)</sup> For the three months ended 31 March 2019, there were 6.1 million options exercisable and 2.3 million warrants that were excluded from the calculation as the impact was anti-dilutive (for the three months ended 31 March 2018 - 1.1 million options).



**Serinus Energy plc**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended 31 March 2019 and 2018**  
(US 000s, unless otherwise noted)

**9. Segment information**

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

	<b>Romania</b>	<b>Tunisia</b>	<b>Corporate</b>	<b>Total</b>
<b>As at 31 March 2019</b>				
Total assets	45,409	71,238	3,696	120,343
<b>For the three months ended 31 March 2019</b>				
Petroleum and natural gas revenues				
Crude oil	-	1,260	-	1,260
Natural gas	-	443	-	443
	-	1,703	-	1,703
Royalties	-	(165)	-	(165)
Revenue, net of royalties	-	1,538	-	1,538
Cost of sales				
Production expenses	-	(629)	(12)	(641)
Depletion and depreciation	(25)	(371)	(166)	(562)
Total cost of sales	(25)	(1,000)	(178)	(1,203)
Gross (loss) profit	(25)	538	(178)	335
General and administrative	-	-	(673)	(673)
Share-based payment expense	-	-	(219)	(219)
Operating (loss) profit	(25)	538	(1,070)	(557)
Finance expense	27	(361)	(1,093)	(1,427)
Profit (loss) before income taxes	2	177	(2,163)	(1,984)
Current income tax expense	-	(59)	(1)	(60)
Deferred income tax expense	-	(287)	-	(287)
Profit (loss) for the period	2	(169)	(2,164)	(2,331)
Capital expenditures <sup>(1)</sup>	1,067	34	-	1,101
<b>As at 31 December 2018</b>				
Total assets	44,095	71,473	5,453	121,021
<b>For the three months ended 31 March 2018</b>				
Petroleum and natural gas revenues				
Crude oil	-	1,638	-	1,638
Natural gas	-	573	-	573
	-	2,211	-	2,211
Royalties	-	(213)	-	(213)
Revenue, net of royalties	-	1,998	-	1,998
Cost of sales				
Production expenses	-	(728)	(11)	(739)
Depletion and depreciation	(1)	(414)	(40)	(455)
Total cost of sales	(1)	(1,142)	(51)	(1,194)
Gross (loss) profit	(1)	856	(51)	804
General and administrative	-	-	(698)	(698)
Share-based payment expense	-	-	(129)	(129)
Well incident recovery	2,592	-	-	2,592
Listing costs	-	-	(386)	(386)
Operating profit (loss)	2,591	856	(1,264)	2,183
Finance expense	207	(221)	(714)	(728)
Profit (loss) before income taxes	2,798	635	(1,978)	1,455
Current income tax expense	-	(132)	-	(132)
Deferred income tax expense	-	(321)	-	(321)
Profit (loss) for the period	2,798	182	(1,978)	1,002
Capital expenditures <sup>(1)</sup>	1,996	12	84	2,092

<sup>(1)</sup> Capital expenditures exclude the impact of changes in non-cash working capital.

**Serinus Energy plc**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended 31 March 2019 and 2018**  
(US 000s, unless otherwise noted)

**10. Property, plant and equipment**

	Note	Oil and gas interests	Corporate assets	Right-of-use assets	Total
<b>Cost:</b>					
Balance as at 31 December 2017		254,090	2,489	-	256,579
Additions		10,668	90	-	10,758
Change in decommissioning provision		(994)	-	-	(994)
Disposals		(3,500)	-	-	(3,500)
Balance as at 31 December 2018		260,264	2,579	-	262,843
Adjustment on initial application of IFRS 16	3	-	-	874	874
Additions		1,092	9	-	1,101
Balance as at 31 March 2019		261,356	2,588	874	264,818
<b>Accumulated depletion and depreciation:</b>					
Balance as at 31 December 2017		(155,305)	(1,696)	-	(157,001)
Depletion and depreciation		(1,560)	(241)	-	(1,801)
Disposals		3,500	-	-	3,500
Balance as at 31 December 2018		(153,365)	(1,937)	-	(155,302)
Depletion and depreciation		(367)	(82)	(113)	(562)
Balance as at 31 March 2019		(153,732)	(2,019)	(113)	(155,864)
<b>Net book value</b>					
Balance as at 31 December 2018		106,899	642	-	107,541
Balance as at 31 March 2019		107,624	569	761	108,954

The following table reconciles capital expenditures to the property, plant and equipment expenditures in the cash flow statement:

	Three months ended	
	2019	2018
Property, plant and equipment expenditures	1,101	2,092
Changes in non-cash working capital	579	944
Property, plant and equipment, cash payments	1,680	3,036

Future development costs associated with the proved plus probable reserves of \$55.0 million (2018 - \$55.6 million) were included in the depletion calculation for the Tunisia operating segment.

As at 31 March 2019, there were no impairment indicator triggers or triggers for reversals indicating the need for an impairment test, or a reversal, as such, no additional impairment or reversals have been recorded.

**Right-of-use assets**

The Group's right-of-use assets consist of leases for office space in Calgary, Canada and Bucharest, Romania, and vehicle leases in Romania. At 31 March 2019, the office leases had a carrying value of \$726 thousand and vehicle leases had a carrying value of \$35 thousand.

**Serinus Energy plc**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended 31 March 2019 and 2018**  
(US 000s, unless otherwise noted)

**11. Trade receivables and other**

<b>As at</b>	<b>31 March 2019</b>	<b>31 December 2018</b>
Trade receivables	2,907	2,930
Commodity tax receivable	2,690	2,701
Corporate tax receivable	1,333	1,357
Prepays and other	187	274
Insurance receivable	-	2,881
	<b>7,117</b>	<b>10,143</b>

**12. Shareholders' capital**

**Authorized**

The Company is authorized to issue an unlimited number of ordinary shares without nominal or par value.

Changes in issued ordinary shares are as follows:

	<b>Three months ended 31 March 2019</b>		<b>Year ended 31 December 2018</b>	
	Number of shares	Amount (\$000s)	Number of shares	Amount (\$000s)
Balance, beginning of the period/year	217,318,805	375,208	150,652,138	362,534
Shares issued	21,553,583	2,903	66,666,667	13,475
Issuance costs, net of tax	-	(190)	-	(801)
Balance, end of the period/year	<b>238,872,388</b>	<b>377,921</b>	<b>217,318,805</b>	<b>375,208</b>

On 19 March 2019, the Company issued 21,553,583 ordinary shares at 10.5 pence per ordinary share. Attached to each share issued is 0.105 share purchase warrants ("warrants") (note 13). Gross proceeds totaled \$3.0 million and were allocated between share capital (\$2.9 million) and warrants (\$0.1 million) (note 13).

**13. Warrants**

	<b>Three months ended 31 March 2019</b>		<b>Year ended 31 December 2018</b>	
	Number of warrants	Amount (\$000s)	Number of warrants	Amount (\$000s)
Balance, beginning of the year	-	-	-	-
Warrants issued	2,263,126	97	-	-
Balance, end of the period	<b>2,263,126</b>	<b>97</b>	<b>-</b>	<b>-</b>

Every one warrant entitles the holder to purchase one ordinary share at an exercise price of 10.5 pence per ordinary share, exercisable for a period of 24 months after admission of the ordinary shares to trading on AIM, subject to approval by a special resolution of the Company's shareholders at the upcoming Annual General Meeting being held on 16 May 2019.

**Serinus Energy plc**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended 31 March 2019 and 2018**  
(US 000s, unless otherwise noted)

**14. Long-term debt**

<b>As at</b>	<b>31 March 2019</b>	<b>31 December 2018</b>
Senior loan <sup>(1)</sup>	2,701	5,521
Convertible loan <sup>(2)</sup>	29,853	29,111
Debt-principal balance	32,554	34,632
Unamortized discounts and debt costs	(288)	(351)
Modification gain	(979)	(990)
	<b>31,287</b>	<b>33,291</b>
Current portion	2,793	5,624
Long-term portion	28,494	27,667

<sup>(1)</sup> Includes loan principal of \$2.7 million (31 December 2018 – \$5.4 million) plus accrued interest.

<sup>(2)</sup> Includes loan principal of \$20.0 million (31 December 2018 – \$20.0 million) plus accrued interest.

As at 31 March 2019, the Group had \$31.3 million in total debt with the European Bank for Reconstruction and Development (“EBRD”) consisting of a \$2.7 million Senior Loan plus accrued interest and a \$20.0 million Convertible Loan plus accrued interest, net of unamortized discounts and costs, and a debt modification gain.

As at 31 March 2019, the Group was not in compliance with the consolidated debt to EBITDA covenant or the debt service coverage ratio for the three months ended 31 March 2019. On 29 March 2019, the Group received a waiver from the EBRD formally waiving compliance with these covenants for the period ended 31 March 2019. The implication of this waiver is that the debt repayments will follow their original scheduled repayment terms and the bank will not be acting on its security as a result of the breach.

The Senior Loan agreement contains a prepayment clause whereby EBRD has the option to request prepayment in the event that the annual reserves coverage ratio for Tunisian reserves is less than 1.5, in an amount to bring the ratio back on side. The Group did not meet the reserves coverage ratio as at 31 December 2018 based on the Tunisia reserves. The waiver received from the EBRD on 29 March 2019 also waived compliance with this clause for the period ended 31 December 2018.

**15. Other provisions**

<b>As at</b>	<b>31 March 2019</b>	<b>31 December 2018</b>
Lease liabilities <sup>(a)</sup>	775	-
JV audit	1,148	1,148
Severance	219	219
	<b>2,142</b>	<b>1,367</b>
Current	435	-
Non-current	1,707	1,367

**(a) Lease liabilities**

<b>As at</b>	<b>Note</b>	<b>31 March 2019</b>	<b>31 December 2018</b>
Balance, beginning of year		-	-
Adjustment on initial application of IFRS 16	3	874	-
Liabilities settled		(129)	-
Interest expense		30	-
Balance, end of period		<b>775</b>	<b>-</b>
Current		435	-
Non-current		340	-

**Serinus Energy plc**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended 31 March 2019 and 2018**  
(US 000s, unless otherwise noted)

The Group's minimum lease payments are as follows:

	Within 1 Year	2-5 Years	Thereafter	Total
Minimum lease payments	518	359	-	877

**16. Supplemental cash flow disclosures**

	Three months ended 31 March	
	2019	2018
Cash provided by (used in):		
Trade receivables and other	2,981	(1,110)
Accounts payable and accrued liabilities	(71)	(2,458)
	2,910	(3,568)
Changes in non-cash working capital relating to:		
Operating	2,910	(3,568)

The following table reconciles long-term debt<sup>(1)</sup> to cash flows arising from financing activities:

	Three months ended 31 March	
	2019	2018
Balance, beginning of the year	33,291	31,261
Cash changes:		
Principal payment on senior loan	(2,700)	-
Interest payments on senior loan	(235)	(204)
Non-cash changes:		
Modification gain upon adoption of IFRS 9	-	(1,034)
Amortization of discounts and debt costs	63	65
Amortization of modification gain	11	11
Accrued interest on senior loan	115	102
Accrued interest on convertible loan	742	612
Balance, end of the year	31,287	30,813

<sup>(1)</sup> Includes the current portion of long-term debt.

**17. Commitments and contingencies**

**Commitments**

Future payments for the Group's commitments as at 31 March 2019 are below. A commitment is an enforceable and legally binding agreement to make a payment in the future for the purchase of goods and services. These items exclude amounts recorded on the balance sheet.

	Within 1 Year	2-3 Years	4-5 Years	Thereafter	Total
Operating leases	134	-	-	-	134

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

*Romania*

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

**Serinus Energy plc**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended 31 March 2019 and 2018**  
(US 000s, unless otherwise noted)

of the extension's approval. The Group has completed the work obligations for drilling the first two wells, the Mofinu-1007 and Mofinu-1003 wells. During 2019 the Group intends to acquire 120 km<sup>2</sup> of new seismic in order to meet its third and final commitment.

***Contingencies***

*Tunisia*

The Tunisian state oil and gas company, ETAP, has the right to back into up to a 50% working interest in the Chouech Es Saida concession if, and when, the cumulative crude oil sales, net of royalties and shrinkage, from the concession exceeds 6.5 million barrels. As at 31 March 2019, cumulative liquid hydrocarbon sales net of royalties and shrinkage was 5.2 million barrels.