PAN ORIENT ENERGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

To the Directors and Shareholders of Pan Orient Energy Corp.

We have audited the accompanying consolidated financial statements of Pan Orient Energy Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of operations and other comprehensive income (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 Pan Orient Energy Corp. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Calgary, Canada
April 10, 2014

Pan Orient Energy Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars, unless otherwise noted)

($000s)	**December 31 2013**	December 31 2012
Assets		
Current		
Cash and cash equivalents	**41,831**	133,836
Accounts receivable	**8,896**	13,088
Taxes receivable (note 10)	**12,915**	-
	63,642	146,924
Deposits	**2,254**	2,166
Property, plant and equipment (note 4)	**58,265**	38,819
Exploration and evaluation (note 5)	**162,374**	194,209
	286,535	382,118
Liabilities		
Current		
Accounts payable and accrued liabilities	**18,006**	17,993
Taxes payable (note 10)	**1**	14,721
	18,007	32,714
Deferred tax liabilities (note 10)	**23,124**	19,127
Employee pension liabilities	**68**	49
Decommissioning provision (note 8)	**3,459**	2,192
Long term royalty provision (note 9)	**-**	2,197
	44,658	56,279
Shareholders' equity		
Share capital (note 11)	**117,656**	117,430
Contributed surplus	**21,174**	18,460
Non-controlling interest (note 15)	**17,310**	17,683
Accumulated other comprehensive income (loss)	**2,536**	(4,297)
Retained earnings	**83,201**	176,563
	241,877	325,839
Commitments (note 18)		
Contingencies (note 19)		
Subsequent events (note 20)		
	286,535	382,118

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors:

(signed "Michael Hibberd")
Director

(signed "Gerald Macey")
Director

Pan Orient Energy Corp.
Consolidated Statements of Operations and Comprehensive Income (loss)
(Expressed in Canadian dollars, unless otherwise noted)

($000s, except per share amounts)	Years Ended December 31 **2013**	2012
Revenue		
Oil	**32,196**	55,162
Royalties	**(1,590)**	(2,783)
Interest	**824**	909
	31,430	53,288
Expenses		
Depletion and depreciation	**14,651**	12,999
General and administrative	**4,605**	5,890
Production and operating	**4,294**	6,994
Stock-based compensation	**1,881**	2,517
Transportation	**513**	931
Foreign exchange loss (gain)	**(74)**	1,413
Gain on sale of Thailand interests (note 6)	**258**	(94,438)
Impairment (note 7)	**109,574**	-
Foreign new venture expenditures	**-**	55
	135,702	(63,639)
Income (loss) before taxes and non-controlling interest	**(104,272)**	116,927
Taxes (note 10)		
Current income tax expense (recovery)	**(14,678)**	18,126
Deferred income tax expense	**4,141**	12,552
	(10,537)	30,678
Net income (loss)	**(93,735)**	86,249
Foreign exchange gain (loss) on translation of foreign operations	**6,833**	(2,329)
Comprehensive income (loss)	**(86,902)**	83,920
Net income (loss) attributable to:		
Common shareholders	**(93,362)**	86,642
Non-controlling interest (note 15)	**(373)**	(393)
Net income (loss)	**(93,735)**	86,249
Comprehensive income (loss) attributable to:		
Common shareholders	**(86,529)**	84,313
Non-controlling interest (note 15)	**(373)**	(393)
Comprehensive income (loss)	**(86,902)**	83,920
Net income (loss) per share attributable to common shareholders (note 11)		
Basic	**$ (1.64)**	$ 1.53
Diluted	**$ (1.64)**	$ 1.53

See accompanying notes to the consolidated financial statements.

Pan Orient Energy Corp.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars, unless otherwise noted)

($000s)	Common Shares	Contributed Surplus	NCI	AOCI	Retained Earnings	Total
Balance as at December 31, 2011	159,356	15,456	17,932	887	89,282	282,913
Net income (loss)	-	-	(393)	-	86,642	86,249
Stock-based compensation expense	-	2,517	-	-	-	2,517
Capitalized stock-based compensation	-	548	-	-	-	548
Options exercised	119	-	-	-	-	119
Transfer from contributed surplus	61	(61)	-	-	-	-
Special distribution	(42,540)	-	-	-	-	(42,540)
Deferred tax recognized on share issue costs	434	-	18	-	-	452
Shares issued to non-controlling interest	-	-	765	-	-	765
Transactions effecting non-controlling interest	-	-	(639)	-	639	-
Impact on AOCI from disposal of Thai interests	-	-	-	(2,855)	-	(2,855)
Other comprehensive loss	-	-	-	(2,329)	-	(2,329)
Balance as at December 31, 2012	117,430	18,460	17,683	(4,297)	176,563	325,839
Balance as at December 31, 2012	117,430	18,460	17,683	(4,297)	176,563	325,839
Net loss	-	-	(373)	-	(93,362)	(93,735)
Stock-based compensation expense	-	1,881	-	-	-	1,881
Capitalized stock-based compensation	-	929	-	-	-	929
Options exercised	130		-	-	-	130
Transfer from contributed surplus	96	(96)	-	-	-	-
Other comprehensive income	-	-	-	6,833	-	6,833
Balance as at December 31, 2013	117,656	21,174	17,310	2,536	83,201	241,877

See accompanying notes to the consolidated financial statements.

Pan Orient Energy Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars, unless otherwise noted)

($000s)	Years Ended December 31 **2013**	2012
Cash Provided From (Used in)		
Operating Activities		
Net income (loss)	**(93,735)**	86,249
Items not affecting cash		
Taxes	**(10,537)**	30,678
Depletion and depreciation	**14,651**	12,999
Stock-based compensation	**1,881**	2,517
Accretion	**88**	167
Gain on settlement of decommissioning provision	**(19)**	-
Non-cash foreign venture expenditures	**-**	55
Gain on sale of Thailand interests (note 6)	**258**	(94,438)
Impairment (note 7)	**109,574**	-
	22,161	38,227
Taxes paid	**(4)**	(3,754)
Changes in non-cash working capital	**(482)**	(150)
	21,675	34,323
Investing Activities		
Petroleum and natural gas assets	**(101,280)**	(78,011)
Disposal of petroleum and natural gas assets	**1,239**	-
Sale of Thailand interests	**2,919**	161,814
Taxes paid on gain from sale of Thailand interests	**(12,953)**	-
Deposits	**(88)**	815
Change in non-cash working capital	**(1,453)**	5,398
	(111,616)	90,016
Financing Activities		
Issue of common shares	**130**	119
Subsidiary's issuance of common shares, net of issue costs	**-**	183
Special distribution	**-**	(42,540)
	130	(42,238)
Change in cash and cash equivalents	**(89,811)**	82,101
Effect of foreign exchange on cash balances	**(2,194)**	(672)
Cash and cash equivalents, beginning of year	**133,836**	52,407
Cash and cash equivalents, end of year	**41,831**	133,836

See accompanying notes to the consolidated financial statements.

1) CORPORATE INFORMATION

Pan Orient Energy Corp. (“Pan Orient” or the “Company”) is a Canadian corporation with shares listed on the Toronto Stock Exchange Venture (“TSX-V”). The records office and principal address is located at 1505, 505 – 3rd Street S.W., Calgary, Alberta, T2P 3E6.

The Company is an oil and natural gas company which holds properties onshore Thailand and Indonesia as well as an interest in Andora Energy Corporation (“Andora”) which holds properties in Northern Alberta. The Company is continually pursuing other oil and natural gas exploration opportunities in Asia.

2) BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The consolidated financial statements were approved by the Company’s Board of Directors on April 10, 2014.

Use of Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the dates of the statements of financial position as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the dates of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for depletion and depreciation and amounts used for property, plant and equipment and exploration and evaluation cost impairment calculations are based on a number of factors including estimates of oil and natural gas reserves and future costs required to develop those reserves. To test impairment, costs are allocated into cash generating units (“CGUs”) based on their ability to generate largely independent cash flows. The determination of CGUs is subject to judgment. The transfer of exploration and evaluation assets to property, plant and equipment is based on management’s judgment of technical feasibility and commercial viability.

Stock-based compensation is subject to the estimation of what the ultimate payout will be using pricing models such as Black-Scholes which is based on significant assumptions such as expected volatility, dividend yield and expected term.

Amounts recorded for decommissioning provision and the related accretion expense requires the use of estimates with respect to the amount and timing of abandonment costs, inflation and interest rates.

The provision for income taxes is based on judgments in applying income tax law and estimates on the applicable tax rates, timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company’s principal accounting policies are outlined below:

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when an entity is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. All significant intercompany transactions and balances have been eliminated. Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company’s equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest’s share of changes in equity since the date of acquisition. All of the Company’s material subsidiaries are wholly owned except for Andora, of which Pan Orient owns 71.8% of the outstanding common shares. The consolidated financial statements include a non-controlling interest representing 28.2% of Andora’s assets and liabilities not owned by Pan Orient. Accounting policies are applied consistently throughout all consolidated entities and the reporting dates of the Company and its subsidiaries are coterminous.

(b) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders’ proportion of the net fair value of the assets, liabilities and contingent liabilities recognized or at the fair value of the non-controlling interest. Non-controlling interest is presented within equity and when there is a loss of control, a gain or loss is recognized on the sold and retained interests. Increases or decreases in the Company’s ownership interest while retaining control is a capital transaction.

(c) Joint Operations

The Company conducts substantially all its oil and gas exploration and production activities with others. These consolidated financial statements reflect the Company’s proportionate interest in such activities.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and short-term investments with an original maturity date of three months or less.

(e) Petroleum and Natural Gas Property

Exploration and Evaluation (“E&E”)

Pre-exploration and pre-licensing costs associated with the investigating, bidding and acquisition of petroleum properties are expensed prior to obtaining a petroleum lease or concession.

Costs incurred prior to establishing commercial viability and technical feasibility, such as land and lease acquisition costs, and geological and geophysical costs, are initially classified as E&E assets. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable based on several factors including the assignment of proven and probable reserves. Upon determination of technical feasibility and commercial viability, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property, plant and equipment.

Property, Plant and Equipment (“PP&E”)

Unless initially classified as E&E assets, all costs related to the acquisition, exploration and development of petroleum and natural gas properties are capitalized and measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include land and lease acquisition costs, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, decommissioning costs, and carrying costs.

Petroleum and natural gas assets are accumulated in components, which generally are fields or groups of fields and then aggregated into CGUs. Depletion is provided on costs accumulated using the unit-of production method based on an independent engineering estimate of the Company’s share of proved plus probable reserves, before royalties. Included in the depletion base are estimated future costs to be incurred in developing proved and probable reserves. Estimated salvage values are excluded from the depletion base.

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 net within “other income” or “other expenses” in profit or loss.

Subsequent costs

Cost incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts, including major inspection, of property, plant and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. The carrying amount of any replaced or sold component is derecognized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit and loss as incurred.

Impairment

An impairment test is performed whenever events and circumstances indicate that the carrying value of the asset or CGU may exceed the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. E&E assets are allocated to the CGU or groups of CGUs to which they relate for purposes of impairment testing. If there is indication of an impairment loss, the costs carried on the statement of financial position in excess of the recoverable amount are charged to the statement of operations.

Impairment losses from prior periods are assessed at each reporting date for indications that the impairment loss no longer exists or has decreased. Impairment losses can be reversed if there is a change in the estimates used to determine the recoverable amount. Reversal of impairment losses cannot exceed the carrying value of the asset prior to impairment less any depreciation and depletion that would have been taken if no impairment was recognized.

(f) Decommissioning Provision

The Company recognizes a liability related to statutory, contractual or other legal obligations associated with the retirement of assets, when a reasonable estimate of the provision can be determined. A corresponding increase to the carrying amount of the related asset is recorded. The liability is increased as accretion is recognized over time through charges to accretion, which is included in finance costs. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying assets. Revisions to the estimated timing of cash flows, inflation rates, discount rates or to the original estimated undiscounted costs also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

(g) Revenue Recognition

Revenue is recognized when title passes to the customer and when collection is reasonably assured.

(h) Stock-Based Compensation

The Company accounts for its stock-based compensation using the fair value method of accounting for stock options granted to directors and employees using the Black-Scholes option-pricing model. Stock-based compensation is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to share capital. The amount recognized as expense is adjusted for an estimated forfeiture rate for options that will not vest, which is adjusted as actual forfeitures occur, until the shares are fully vested.

(i) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets or liabilities are recorded to reflect the difference between the accounting and tax base of assets and liabilities, and income tax loss carry forwards. Deferred income taxes are measured using tax rates that are expected to apply to the period when the deferred tax asset is realized or deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the end of the reporting period. The effect of a change in income tax rate is recognized in income in the period that the change occurs.

Deferred income tax assets are recognized for deductible temporary differences to the extent it is probable that future taxable profit will be available against which the deferred tax assets can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extend it is no longer probable that sufficient taxable profits will be available to allow the assets to be recovered.

The Company offsets deferred tax assets and deferred tax liabilities relating to the same taxable entity. The Company may also offset deferred tax assets and deferred tax liabilities relating to different taxable entities, where the amounts relate to income taxes levied by the same taxation authority and the entities intend to realize the assets and settle the liabilities simultaneously.

(j) Per Share Amounts

Basic per share information is calculated on the basis of the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method which assumes that any proceeds received by the Company upon the exercise of in-the-money stock options, plus unamortized stock compensation costs, would be used to buy back common shares at the average market price for the period.

(k) Foreign Currency

The Company's reporting currency is the Canadian dollar and its functional currencies are the Canadian dollar, the Thai baht and the U.S. dollar.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income. When a foreign operation is disposed of, or deemed to be disposed of, the relevant amount in AOCI (in the cumulative translation account) is transferred to profit or loss as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative translation account.

(l) Financial Instruments

All financial assets, liabilities and financial derivatives are initially recognized in the statement of financial position at fair value and must be classified as one of the following five categories: fair value through profit and loss ("held-for-trading"); held-to-maturity instruments; loans and receivables; available-for-sale financial assets; or other financial liabilities. Loans and receivables, held-to-maturity instruments and other financial liabilities are subsequently measured at amortized cost. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired.

The Company has classified accounts receivable and deposits as loans and receivables, and accounts payable and accrued liabilities as other liabilities.

(m) Segment Reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and returns that are different from those of other segments. The Company has three reportable segments which are comprised of oil and gas exploration, development and production activities within Thailand, Indonesia and Canada.

(n) Changes in Accounting Policies

The following new accounting standards and amendments to existing standards have been adopted by the Company:

IFRS 10 Consolidated Financial Statements

As of January 1, 2013 the Company adopted IFRS 10, ñConsolidated Financial Statementsò which requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12 ñConsolidation - Special Purpose Entitiesò and parts of IAS 27 ñConsolidated and Separate Financial Statementsò. The adoption of this standard did not impact these consolidated financial statements.

IFRS 11 Joint Arrangements

As of January 1, 2013 the Company adopted IFRS 11, ñJoint Arrangementsò which requires a venturer to classify its interest in a joint arrangement as a joint venture or a joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 ñInterests in Joint Venturesò and SIC-13 ñJointly Controlled Entities - Non-Monetary Contributions by Venturersò. This standard has no impact on the Company as all joint arrangements are considered jointly controlled assets and the Company will continue to include herein its proportionate share of the relevant assets and liabilities.

IFRS 12 Disclosure of Interests in Other Entities

As of January 1, 2013 the Company adopted IFRS 12, ñDisclosure of Interests in Other Entitiesò which applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. As a result of IFRS 12, the Company has expanded its disclosures about its interests in subsidiaries (note 14) and the related non-controlling interests of its subsidiaries (note 15).

IFRS 13 Fair Value Measurements

As of January 1, 2013 the Company adopted IFRS 13, ñFair Value Measurementsò which defines fair value, sets out a single IFRS framework for measuring value and requires disclosure about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurement, except in specified circumstances. The adoption of this standard did not impact the amounts included in the consolidated financial statements.

4) PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the carrying amount of property, plant and equipment as at December 31, 2013 and 2012 is set out below.

($000s)	Canada	Thailand	Indonesia	Total
Cost				
At December 31, 2011	507	174,605	-	175,112
Additions	830	27,240	88	28,158
Dispositions	-	(151,444)	-	(151,444)
Transfers from exploration and evaluation	-	89	-	89
Changes in decommissioning provision	-	879	-	879
Foreign currency translation	-	1,349	-	1,349
At December 31, 2012	1,337	52,718	88	54,143
Additions	5	33,185	61	33,251
Transfers from exploration and evaluation	-	154	-	154
Changes in decommissioning provision	-	1,056	-	1,056
Foreign currency translation	-	(879)	30	(849)
At December 31, 2013	1,342	86,234	179	87,755
Accumulated depletion and depreciation				
At December 31, 2011	(296)	(19,490)	-	(19,786)
Dispositions	-	17,554	-	17,554
Charge for the year	(142)	(12,829)	(28)	(12,999)
Foreign currency translation	-	(93)	-	(93)
At December 31, 2012	(438)	(14,858)	(28)	(15,324)
Charge for the year	(147)	(14,459)	(45)	(14,651)
Foreign currency translation	-	509	(24)	485
At December 31, 2013	(585)	(28,808)	(97)	(29,490)
Net book value				
At December 31, 2012	899	37,860	60	38,819
At December 31, 2013	757	57,426	82	58,265

General and administrative costs of $0.4 million (2012 ï $0.4 million) that were directly related to development and production activities have been capitalized as property, plant and equipment.

5) EXPLORATION AND EVALUATION

A reconciliation of the carrying amount of E&E assets as at December 31, 2013 and 2012 is set out below.

($000s)	Canada	Thailand	Indonesia	Total
At December 31, 2011	58,484	12,508	77,979	148,971
Additions	895	10,167	45,670	56,732
Disposition	-	(9,314)	-	(9,314)
Changes in decommissioning provision	(13)	-	89	76
Transfers to property, plant and equipment	-	(89)	-	(89)
Foreign currency translation	-	181	(2,348)	(2,167)
At December 31, 2012	59,366	13,453	121,390	194,209
Additions	8,985	7,024	52,949	68,958
Disposition	(1,239)	-	-	(1,239)
Changes in decommissioning provision	330	-	(254)	76
Transfers to property, plant and equipment	-	(154)	-	(154)
Impairment (note 7)	-	(2,766)	(105,422)	(108,188)
Foreign currency translation	-	(344)	9,056	8,712
At December 31, 2013	67,442	17,213	77,719	162,374

General and administrative costs totaling $4.1 million (2012 ï $4.0 million) and stock-based compensation totaling $0.9 million (2012 - $0.5 million) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

Recoverability of the capitalized costs is dependent on successfully completing development of the properties. With respect to the Canadian properties, recoverability is also dependent on determining the technical feasibility of the project. Capitalized costs incurred to date do not necessarily represent present or future values.

6) GAIN ON SALE OF THAILAND INTERESTS

On June 15, 2012, the Company closed the sale of its operated 60% interest in Thailand Concessions L44/43, L33/43 and SW1 for net proceeds of $174.0 million, resulting in a net gain on disposition of $94.4 million, before estimated current income taxes of $14.7 million. As at December 31, 2012 there was $4.6 million held in escrow accounts jointly controlled by the Company and the purchaser of the interests. US$3.0 million held in escrow at the end of 2012 to support warranty claims was received December 15, 2013.

The gain on disposition, before tax, is calculated as follows:

	Years Ended December 31	
($000s)	**2013**	2012
Proceeds from disposition	**-**	185,273
Transaction costs	**(258)**	(11,265)
Net proceeds	**(258)**	174,008
Net assets disposed of:		
Cash and cash equivalents	**-**	(5,618)
Non-cash working capital	**-**	1,027
Property, plant and equipment	**-**	(133,890)
Exploration and evaluation costs	**-**	(9,314)
Decommissioning provision	**-**	10,763
Deferred tax liabilities	**-**	54,405
Other	**-**	3,057
Gain (loss) on disposition, before tax	**(258)**	94,438

7) IMPAIRMENT

Indonesia – Citarum PSC

In 2013 the Company recorded a net impairment loss of $92.6 million related to the Citarum Production Sharing Contract (ñPSCò) in Indonesia comprised of a $94.9 million impairment loss recognized on E&E assets and a reduction in the long term royalty provision of $2.3 million. The impairment loss was the result of the Companyôs decision to discontinue the drilling program and initiate a process to farm-out the PSC. The carrying value of the Citarum E&E assets after the impairment loss is nil.

Indonesia – South CPP PSC

In 2013 the Company recorded a net impairment loss of $13.7 million related to the South CPP PSC in Indonesia comprised of a $10.5 million impairment loss recognized on E&E assets, an accrual of $2.7 million for expected relinquishment costs, and a $0.5 million foreign exchange loss reclassified from accumulated other comprehensive income. The impairment loss was recognized as the Company has decided to relinquish the South CPP PSC. The carrying value of the South CPP E&E assets after the impairment loss is nil.

Thailand – Concession L45/50

In 2013 the Company recorded a net impairment loss of $3.3 million related to the L45/50 Concession in Thailand comprised of a $2.8 million impairment loss recognized on E&E assets and an accrual of $0.5 million for expected costs associated with unfulfilled work commitments. The impairment loss was recognized as the Company has decided not to drill any wells at Concession L45 and it intends to let the Concession expire on April 27, 2014. The carrying value of the L45/50 E&E assets after the impairment loss is nil.

8) DECOMMISSIONING PROVISION

($000s)	Years Ended December 31 **2013**	2012
Decommissioning provision, beginning of year	**2,192**	11,759
Obligations incurred	**1,499**	633
Revisions to obligations	**(260)**	322
Obligations settled	**(107)**	-
Disposition of Thai interests	**-**	(10,763)
Accretion	**74**	167
Foreign currency translation	**61**	74
Decommissioning provision, end of year	**3,459**	2,192

The decommissioning provision is based on the Company's net ownership of wells and facilities in Thailand, Indonesia and Canada, management's estimates of costs to abandon and reclaim those wells and facilities, and the potential future timing of the costs to be incurred.

Total undiscounted cash flows, escalated at 2.0%, required to settle the Company's decommissioning provision are estimated to be $4.2 million (2012 – $2.7 million). Payments to settle this provision will be made over the operating lives of the underlying assets, estimated to last to between 2014 and 2023. Estimated costs have been discounted at the risk-free interest rate in the jurisdiction in which the expenditure is expected to be incurred, which averaged at 3% at December 31, 2013 (2012 – 3%).

9) LONG TERM ROYALTY PROVISION

In 2012 the Company acquired an additional 20% interest in the Citarum PSC in Indonesia. As consideration for the interest acquired, the Company agreed to pay a future royalty on hydrocarbons discovered within the PSC. The Company provided a provision for future royalty payments. The provision was based on management's best estimate of the future cash outflows discounted at the risk-free interest rate in 2012 in the jurisdiction in which the expenditure is expected to be incurred, which was 1.25%. In the second quarter of 2013 the Company revised the royalty provision to nil based on the impairment loss recognized on the Citarum PSC (note 7).

($000s)	Years Ended December 31 **2013**	2012
Long term royalty provision, beginning of year	**2,197**	-
Additions	**-**	2,177
Accretion	**14**	-
Foreign currency translation	**119**	20
Revision to obligation	**(2,330)**	-
Long term royalty provision, end of year	**-**	2,197

10) TAXES

The Company is required to pay both Special Remuneratory Benefit ("SRB") and income tax in Thailand. Income tax in Thailand is calculated at 50% (2012 – 50%) on petroleum income and 20% (2012 – 23%) on non-petroleum income. Taxable income in Thailand is comprised of cash flow from operations before changes in working capital less capital expenditures and other permitted deductions.

SRB tax is calculated separately for each of the Company's concessions and is not charged until all capital has been recovered. The sliding scale SRB rate ranges from 0 - 75% and is principally driven by production and pricing but is also subject to other adjustments such as changes in Thailand's consumer price index, wholesale price index and cumulative meters drilled on the concession. The calculated SRB tax rate is applied to petroleum profits as defined in Thai tax legislation which includes a deduction for capital spent. The Company did not incur any SRB tax expense for the years ended 2013 and 2012.

Income tax payable and receivable

Taxes payable and receivable in separate jurisdictions have been presented separately.

A summary of Thailand taxes payable for the year ended December 31, 2013 and 2012 is as follows:

	Years Ended December 31	
($000s)	**2013**	2012
Balance, beginning of year	**3**	3,712
Current income tax expense	**2**	3,408
Taxes paid	**(4)**	(3,754)
Tax liability disposed on sale of Thailand interests	**-**	(3,711)
Foreign currency translation	**-**	348
Balance, end of year	**1**	3

A summary of Canadian taxes payable (receivable) for the year ended December 31, 2013 and 2012 is as follows:

	Years Ended December 31	
($000s)	**2013**	2012
Balance, beginning of year	**14,718**	-
Current income tax (recovery) expense	**(14,680)**	14,718
Taxes paid	**(12,953)**	-
Balance, end of year	**(12,915)**	14,718

Current income tax recovery in 2013 is based on managementõs application of current income tax laws and may be assessed differently by the Canadian taxation authorities.

Income tax expense

A reconciliation of income taxes calculated at the statutory income tax rate to the income tax expense included in the consolidated statement of operations is as follows:

	Years Ended December 31	
($000s)	**2013**	2012
Income (loss) before income taxes and non-controlling interest	**(104,272)**	116,927
Statutory income tax rate	**25%**	25%
Expected income taxes at statutory rate	**(26,068)**	29,232
Increase (decrease) resulting from:		
Income taxes in jurisdictions with different rates	**(3,677)**	7,555
Non-deductible stock-based compensation	**470**	629
Recovery of prior year taxes	**(14,680)**	-
Non-taxable gain on sale of Thai interests	**-**	(4,911)
Change in deferred SRB tax rate	**-**	982
Non-taxable impairment charge	**7,565**	-
Change in unrecognized deferred tax asset and other	**25,853**	(2,809)
Income tax expense (recovery)	**(10,537)**	30,678

The statutory rate in Canada was 25% in 2013 (2012 ï 25%)

Deferred income tax

The components of the Company's net deferred tax liabilities arising from temporary differences and loss carry-forwards are as follows:

($000s)	**Balance at December 31 2011**	**Recognized in profit or loss**	**Disposed on sale of Thai interests**	**Recognized in equity**	**Balance at December 31 2012**
Petroleum and natural gas properties	74,864	8,319	(53,757)	376	29,802
Non-capital losses	(13,526)	3,803	308	-	(9,415)
Decommissioning provision	(5,638)	(552)	5,382	-	(808)
Special remuneratory benefit	5,356	982	(6,338)	-	-
Share issue costs	-	-	-	(452)	(452)
Net deferred tax liability	61,056	12,552	(54,405)	(76)	19,127

($000s)	**Balance at December 31 2012**	**Recognized in profit or loss**	**Recognized in equity**	**Balance at December 31 2013**
Petroleum and natural gas properties	29,802	11,212	(144)	40,870
Non-capital losses	(9,415)	(6,840)	-	(16,255)
Decommissioning provision	(808)	(669)	-	(1,477)
Share issue costs	(452)	438	-	(14)
Net deferred tax liability	19,127	4,141	(144)	23,124

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.

The following provide the details of deductible temporary differences and unused losses for which no deferred tax asset has been recognized:

($000s)	**December 31 2013**	December 31 2012
Petroleum and natural gas properties (1)	**123,778**	18
Non-capital losses (2)	**4,387**	-
Decommissioning provision	**-**	245
Share issuance costs	**1,158**	-
Total allowance taken on deferred tax asset	**129,323**	263

(1) No tax asset has been recognized on the Company's Indonesian tax pools that are in excess of the carrying value of the Indonesian P&NG properties.

(2) No tax asset has been recognized on non-capital losses expiring in in the near future or losses that the Company may not be able to utilize.

11) SHARE CAPITAL

(a) Authorized

Unlimited Common Voting Shares
Unlimited Preferred Shares

(b) Issued and Outstanding Class A Common Shares

Common Shares	Number of shares	Amount (000s)
Balance as at December 31, 2011	56,685,307	$ 159,356
Exercise of stock options	35,000	119
Transfer from contributed surplus on exercise of stock options	-	61
Deferred tax recognized on share issue costs	-	434
Special distribution	-	(42,540)
Balance as at December 31, 2012	56,720,307	$ 117,430
Exercise of stock options	40,000	130
Transfer from contributed surplus on exercise of stock options	-	96
Balance as at December 31, 2013	56,760,307	$ 117,656

(c) Options to Purchase Common Shares

	Number of Options	Weighted Average Exercise Price ($)
Balance as at December 31, 2011	3,816,500	7.26
Granted	2,040,000	2.80
Exercised	(35,000)	3.41
Forfeited	(283,333)	4.35
Expired	(550,000)	11.00
Balance as at December 31, 2012	4,988,167	4.63
Granted	1,586,000	2.48
Exercised	(40,000)	3.25
Forfeited	(944,667)	4.76
Balance as at December 31, 2013	5,589,500	4.01

	Options Outstanding at December 31, 2013			Options Exercisable at December 31, 2013		
Exercise Price ($)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)
1.92 ï 2.00	1,186,000	1.92	4.92	395,333	1.92	4.92
2.01 ï 4.00	1,950,000	2.74	3.09	1,396,669	2.75	2.86
4.01 ï 6.00	450,000	4.35	3.83	183,333	4.64	3.49
6.01 ï 6.40	2,003,500	6.40	0.32	2,003,500	6.40	0.32
1.92 ï 6.40	5,589,500	4.01	2.55	3,978,835	4.59	1.82

(Expressed in Canadian dollars, unless otherwise noted)

(d) Stock-based Compensation

The fair value of the stock options granted has been estimated on the grant dates using the Black-Scholes option pricing model. Weighted average assumptions and resultant fair values for stock options granted during the years ended December 31, 2013 and 2012 are as follows:

	Years Ended December 31	
	2013	2012
Risk free interest rate (%)	**2**	1
Expected lives (years)	**5**	5
Expected volatility (%)	**66**	70
Dividend per share (%)	**-**	-
Forfeiture rate (%)	**10**	10
Weighted average fair value	**$ 1.39**	$ 1.61

(e) Andora Energy Corporation

i) Issued and Outstanding Class A Common Shares

Andora had 100.0 million (December 31, 2012 ï 100.0 million) common shares issued and outstanding as at December 31, 2013 of which Pan Orient held 71.8% (December 31, 2012 ï 71.8%).

ii) Options to Purchase Common Shares of Andora

	Number of options	Weighted average exercise price ($)
Balance as at December 31, 2011	5,775,000	0.72
Granted	11,839,827	0.60
Cancelled	(7,614,827)	(0.69)
Balance as at December 31, 2012 and 2013	10,000,000	0.60

	Options Outstanding at December 31, 2013			Options Exercisable at December 31, 2013		
Exercise Price ($)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)
0.60	10,000,000	0.60	2.66	7,106,607	0.60	2.66

(f) Net Income (Loss) per Share Attributable to Common Shareholders

A reconciliation of the weighted average number of common shares used to calculate diluted net income per share is as follows:

	Years Ended December 31	
	2013	2012
Weighted average common shares - basic	**56,757,348**	56,702,088
Dilutive effect of stock options	**-**	16,816
Weighted average common shares - diluted	**56,757,348**	56,718,904

Options to purchase 5,589,500 common shares outstanding at December 31, 2013 (December 31, 2012 ï 4,988,167) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

12) CAPITAL MANAGEMENT

The Company's capital consists of the following:

($000s)	**December 31 2013**	December 31 2012
Working capital and non-current deposit	47,889	116,376
Share capital	117,656	117,430

Pan Orient's primary objective for managing its capital structure is to maintain financial capacity for the purpose of sustaining future development of its businesses and maintaining investor, creditor and market confidence.

The Company considers its capital structure to include share capital and working capital plus non-current deposits. Management is continually monitoring changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas industry. The Company currently has sufficient cash on hand to carry out its planned activities. However, in the event that adjustments to the capital structure are necessary, the Company may consider issuing additional equity, raising debt or revising its capital investment programs.

Pan Orient's share capital is not subject to any external restrictions. In addition, the Company has not experienced any significant restrictions moving cash out of Thailand. Since the date of incorporation the Company has not paid or declared any dividends other than the special distribution in 2012, nor are any currently contemplated. There were no changes to the Company's approach to capital management during the year.

13) FINANCIAL INSTRUMENTS

Overview

The nature of Pan Orient's operations exposes the Company to credit risk, liquidity risk and market risk. Changes in commodity prices, foreign exchange rates and interest rates may have a material effect on cash flows, net income and comprehensive income. This note provides information about the Company's exposure to each of the above risks as well as the Company's objectives, policies and processes for measuring and managing these risks.

Pan Orient's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management.

Fair Value

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities. Due to the short term nature of the Company's financial instruments the fair value approximates the carrying value.

Credit Risk

Credit risk is the risk of financial loss to the Company if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale of oil production; all of the Company's production is sold to a refinery owned by the Thai National Oil Company. Pan Orient is paid for its production on a monthly basis, typically within a week of the end of the month. The Company has assessed the risk of non-collection from the Thai government as minimal.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Company's short-term investments are held with a chartered bank or the Thai government and are monitored to ensure a stable return. The Company's short-term investments currently consist of bankers' acceptances and term deposits. It is not the Company's policy to utilize complex, higher-risk investment vehicles.

The carrying amount of accounts receivable, and cash and cash equivalents represents the maximum credit exposure. The Company did not write-off any receivables during the years ended December 31, 2013 or 2012.

As at December 31, 2013 and 2012 there were no significant amounts past due or impaired.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its work commitments and other financial obligations as they come due. Pan Orient's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meets its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation.

The Company's liquidity is dependent upon its existing cash position and its operating cash flows. To forecast and monitor liquidity, the Company prepares annual operating and capital expenditure budgets in each country which are monitored and updated as considered necessary. Expected future cash flow from the Thailand properties and the cash balance at December 31, 2013 of $41.8 million exceed minimum required operating and future capital expenditures for at least the next twelve months. The Company's liquidity risk is assessed as low.

The Company's only reported financial liabilities at December 31, 2013 are accounts payable and accrued liabilities of $18.0 million which will mature within one year.

The Company's work commitments in Thailand and Indonesia (note 18) are expected to be funded through cash balances, deposits, inventory and expected future cash flow from Thailand properties.

The Company's commitments in Andora are expected to be funded through Andora's cash balances.

Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows, net income and comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Commodity Price Risk

Changes in commodity prices may significantly impact the results of the Company's operations and cash generated from operating activities. Crude oil prices are impacted by world economic and political events that dictate the levels of supply and demand. The Company did not have any forward exchange contracts in place as at or during the year ended December 31, 2013 or 2012.

Interest Rate Risk

The Company is exposed to interest rate risk on its cash and cash equivalents. Changes in interest rates could impact the Company's cash flows, and net income (loss) and comprehensive income (loss). A 1% change in the interest rate would impact net income (loss) before tax by approximately $0.4 million (2012 - $1.3 million) based on the cash balances at year end.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that future cash flows, net income (loss) and comprehensive income (loss) will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum sales are denominated in Thai baht based on a USD oil price, and all operational and capital activities related to the Thailand properties are transacted in either Thai baht or the U.S. dollar. In addition, the underlying market prices in Thailand for petroleum are impacted by changes in the exchange rate between the Thai baht and the U.S. dollar. The work commitments in Indonesia are expected to be carried out in U.S. dollars.

Changes in foreign exchange rates between the Canadian dollar and the U.S. dollar and Thai baht can affect net income (loss) and other comprehensive income (loss) as a portion of the Company's operations use the U.S. dollar or Thai baht as their functional currency.

As at December 31, 2013 and 2012, the following financial instruments were denominated in currencies other than the Canadian dollar:

	December 31, 2013		December 31, 2012	
	Thai baht (000s of Thai baht)	**US dollar ($000s)**	Thai baht (000s of Thai baht)	US dollar ($000s)
Cash and cash equivalents	**70,328**	**5,081**	82,039	8,717
Accounts receivable	**209,701**	**255**	223,009	4,741
Deposits	**32,716**	**1,954**	26,347	2,197
Accounts payable	**(55,069)**	**(6,840)**	(104,947)	(12,943)
Taxes payable	**(34)**	**-**	(73)	-
Net exposure in functional currency	**257,642**	**450**	226,375	2,712
Net exposure in Canadian dollars(1) ($000s)	**8,477**	**473**	7,001	2,694

(1) Translated at December 31, 2013 and 2012 exchange rates.

Based on financial instruments held at December 31, 2013 and 2012, fluctuations in the exchange rates as indicated below would have the following estimated effect on net income (loss) and other comprehensive income (loss):

($000s)	**December 31 2013**	December 31 2012
Effect of 1% change in CAD to USD exchange rate:		
Pre-tax net income (loss)	**(30)**	(62)
Other comprehensive income (loss)	**25**	35
Effect of 1% change in CAD to baht exchange rate:		
Pre-tax net income (loss)	**-**	-
Other comprehensive income (loss)	**85**	(70)

14) SUBSIDIARIES

As at December 31, 2013 the Company had the following material subsidiaries:

Material Subsidiaries	**Nature and Primary Place of Business**	**Ownership**
Canadian Segment		
Andora Energy Corporation	Operator of and holds a 50% interest in the Sawn Lake Project located in Northern Alberta.	71.8%
Thailand Segment		
Pan Orient Energy (Siam) Ltd.	Operator of the L53/48 (100% interest) and L45/50 (20% interest) concessions west of Bangkok.	100.0%
Indonesian Segment		
Pan Orient Energy (Citarum) Pte. Ltd.	Operator of and holds an 89% interest in the Citarum production sharing contract onshore West Java.	100.0%
Bumi Parahyangan Energi Pte. Ltd.	Non-operator holds an 11% carried interest in the Citarum production sharing contract onshore West Java.	72.7%
Ranhill Jambi Inc. Pte. Ltd.	Operator of and holds a 77% interest in the Batu Gajah production sharing contract onshore South Sumatra.	100.0%
Ranhill Pamai Taluk Energy Pte. Ltd.	Operator of and holds a 77% interest in the South CPP production sharing contract onshore Central Sumatra.	100.0%
Pan Orient Energy East Jabung Pte. Ltd.	Operator of and holds a 100% interest in the East Jabung production sharing contract onshore and offshore South Sumatra.	100.0%

The table does not include wholly owned subsidiaries that are immediate holding companies of the operating subsidiaries.

15) NON-CONTROLLING INTERESTS

The following subsidiary has material non-controlling interests (“NCI”):

	Ownership interest held by NCI at December 31	
Name	**2013**	**2012**
Andora Energy Corporation (“Andora”)	**28.2%**	28.2%

In 2012 Pan Orient increased its ownership in Andora from 53.4% to 71.8%.

The following is summarized financial information for Andora before any intercompany eliminations:

	Andora	
($000s)	**December 31 2013**	December 31 2012
Interest revenue	**288**	101
Total comprehensive income (loss)	**(1,323)**	(1,213)
Total comprehensive income (loss) attributable to non-controlling interests	**(373)**	(393)
Current assets	**25,009**	24,033
Non-current assets	**66,724**	59,524
Current liabilities	**(8,111)**	(273)
Non-current liabilities	**(7,375)**	(6,354)
Net assets	**76,247**	76,930
Net assets attributable to non-controlling interests	**21,502**	21,694
Consolidation adjustments	**(4,192)**	(4,011)
Net assets attributable to non-controlling interests, after consolidation	**17,310**	17,683
Cash flows from operating activities	**(312)**	(409)
Cash flows from investing activities [1]	**530**	(546)
Cash flows from financing activities	**-**	24,909
Net increase in cash and cash equivalents	**218**	23,954

(1) Andora’s 2013 investing activities includes $8.1 million of investment in petroleum and natural properties, offset by a $1.2 million disposal and $7.4 million change in working capital related to investing activities.

16) RELATED PARTY TRANSACTIONS

Key management compensation

Compensation for key management personnel in Canada, Thailand and Indonesia, being the officers and directors, is as follows:

	Years Ended December 31	
($000s)	**2013**	2012
Short-term benefits [1][2]	**3,418**	3,182
Stock-based compensation [2]	**2,642**	2,743
Total	**6,060**	5,925

(1) Includes salaries, benefits, and directors fees.
(2) Before any capitalization to exploration and development activities.

The Company’s consolidated statement of operations is prepared primarily by nature of expenses, with the exception of employee compensation costs which are included in production and operating costs, general and administrative costs and stock-based compensation.

The following table details the amount of employee compensation costs included in operating and general and administrative expenses in the statement of operations:

	Years Ended December 31	
($000s)	**2013**	2012
General and administrative	**2,093**	3,509
Operating	**919**	1,149
Stock-based compensation	**1,881**	2,517
Total employee compensation costs	**4,893**	7,175

17) SEGMENTED INFORMATION

The Company has properties in three countries, each of which is considered a separate operating segment. The three segments consist of: 1) partially developed conventional petroleum and natural gas properties in Thailand; 2) undeveloped petroleum and natural gas properties in Indonesia; and 3) an undeveloped heavy oil property in Canada. The following table provides information for each geographical segment for the years ended December 31, 2013 and 2012:

	Year Ended December 31	
($000s)	**2013**	2012
Petroleum revenue		
Thailand	**32,196**	55,162
Indonesia	**-**	-
Canada	**-**	-
Total	**32,196**	55,162
Current income tax (recovery) expense		
Thailand	**2**	3,408
Indonesia	**-**	-
Canada	**(14,680)**	14,718
Total	**(14,678)**	18,126
Depletion and depreciation		
Thailand	**14,459**	12,829
Indonesia	**45**	29
Canada	**147**	141
Total	**14,651**	12,999
Net income (loss) attributable to common shareholders		
Thailand (1)	**3,159**	13,068
Indonesia (2)	**(107,796)**	(593)
Canada	**11,275**	74,167
Total	**(93,362)**	86,642
Capital expenditures (3)		
Thailand	**40,209**	37,407
Indonesia	**53,010**	40,029
Canada	**8,061**	575
Total	**101,280**	78,011

(1) Includes $3.3 million impairment loss in 2013 on the Company's Thailand assets (note 7)
(2) Includes $106.3 million impairment loss in 2013 on the Company's Indonesia assets (note 7).
(3) Does not include decommissioning provision and acquisition activities

18) COMMITMENTS

As at December 31, 2013 the Company's estimated outstanding capital commitments are as follows:

Country and Concession Name	Remaining Work Program Commitment	Obligation Period Ending	Estimated Net Financial Commitment USD[1] ($000s)	CAD[1] ($000s)
Thailand				
L53/48	▪ Study and training fund	January 2014	17	18
	▪ Geological studies	January 2016	10	10
	▪ Study and training fund	January 2016	90	96
L45/50 [2]	▪ Unfulfilled commitments have been accrued	-	-	-
Total Thailand			117	124
Indonesia [3]				
Citarum [4][5]	▪ See footnote 5	-	-	-
Batu Gajah [4]	▪ Commitments to date have been completed	-	-	-
South CPP [4][6]	▪ Unfulfilled commitments have been accrued	-	-	-
East Jabung [7]	▪ Geological studies	November 2014	29	31
	▪ Drill one pre-exploration well	November 2014	5,111	5,446
	▪ Geological studies	November 2014	50	53
	▪ 425 km 2D seismic acquisition and processing	November 2014	3,147	3,353
	▪ Geological studies	November 2014	75	80
	▪ Drill one exploration well	November 2014	3,000	3,196
Total Indonesia			11,412	12,159
Canadian Heavy Oil Sands – Andora Energy Corporation				
Sawn Lake, Alberta	▪ Outstanding purchase orders on capital expenditures	April 2014	218	231
	▪ Natural gas pipeline tie-in and tariff (CDN $15 thousand per month)	October 2018	409	435
Total Canada			627	666
			12,156	**12,949**

(1) Translated at December 31, 2013 exchange rates.
(2) Pursuant to the Farm-in Agreement, Pan Orient earned a 20% interest in Concession L45 at December 31, 2013 for the completion of seismic acquisition and processing. Pan Orient has elected not to drill the additional two wells to earn a further 40% interest, however, Pan Orient is registered with the government of Thailand as holding a 60% interest in the L45 Concession. The L45 Concession is

expected to expire on April 27, 2014. The Company has accrued $0.5 million as at December 31, 2013 for expected unfulfilled commitments that will be payable to the Government of Thailand upon the expiration of the Concession.

(3) Indonesia financial commitments as provided above represent the required initial 3-year firm exploration work program required under the PSC. With respect to Citarum, Batu Gajah and South CPP, extension of these initial 3-year firm exploration work program commitments have been successfully negotiated in the past with the Government of Indonesia ("GOI") to the dates indicated above. The deadlines for commitments and potential extension of the total exploration period with potential additional commitments is determined on a year-by-year basis as part of an annual submission of a work program which is approved by the GOI. Although extension of the deadline for completion of the 3-year firm exploration work program is a departure from the original contract, it is considered standard practice in Indonesia. In the past, such applications on behalf of Pan Orient have been approved by the GOI and management has no reason to believe that future requests will not be granted approval; however, there is no guarantee. Upon default of a commitment related to any of the first three years of a PSC, the operator is required to relinquish 15% of the original PSC area (the actual acreage relinquished is at the discretion of the operator) and to date, Citarum, Batu Gajah and South CPP have complied with these penalty relinquishments. Depending on the stage of the PSC, failure to fulfill the required firm commitments may also result in penalty payment equal to the unfulfilled commitments and/or forfeiture of the PSC.

(4) Amounts recorded in the consolidated financial statements and work commitments related to these PSCs include amounts paid by Pan Orient on behalf of a partner's carried interest (3% for the Citarum PSC, 23% for the Batu Gajah and South CPP PSC's).

(5) The Company believes that it has satisfied the Citarum PSC commitment for two wells with the drilling operations of the Jatayu-1 and Cataka-1A wells, however, this has not been finalized with the GOI and the GOI may have a different interpretation of the requirement.

(6) The Company has decided to relinquish the South CPP PSC. As part of the relinquishment the Company will be required to pay the GOI for the unfulfilled commitments. The Company has accrued $2.7 million as at December 31, 2013 for the estimated unfulfilled firm commitment of one unfulfilled exploration well.

(7) The Company has applied to extend the East Jabung PSC's work program commitments to November 2015. The extension has not yet been approved by the GOI. Work program commitments for other PSCs have been successfully negotiated in the past and management has no reason to believe that this application will not be approved.

Management's estimate of the minimum amount to fulfill the commitments in Indonesia is based either on the amount stated in the PSC agreement, or the work program budget approved by the GOI if the work program activity has commenced. Commitments in Thailand are estimated based on the amount stated in the concession agreement.

Actual expenditures required to carry out these commitments may be significantly different from the estimates. The Company intends to fund commitments through expected cash flows from Thailand and the Company's existing cash balance.

The Company is committed to future minimum payments for office space in Thailand, Indonesia and Canada. Payments required under these commitments for each of the next five years are as follows:

($000s) **Year**	**Thailand**	**Indonesia**	**Canada**	**Total**
2014	206	360	175	741
2015	103	360	-	463
2016	16	135	-	151
2017	-	-	-	-
2018	-	-	-	-
Total	325	855	175	1,355

19) CONTINGENCIES

The Company has significant international operations and subsidiaries incorporated outside of Canada. The international operations and earnings of the Company and its affiliates have been, and may in the future be, affected from time to time in varying degree by political developments and laws and regulations, such as forced divestiture of assets; restrictions on production, imports and exports; price controls; tax increases and retroactive tax claims; expropriation of property; cancellation of contract rights and environmental regulations. Both the likelihood of such occurrences and their overall effect upon the Company can vary greatly from country to country and are not predictable.

In July 2013 the Tax Directorate General of Indonesia assessed several oil and gas companies operating in Indonesia for Land and Building Tax using a new framework which is being challenged by the impacted oil and gas companies in Indonesia. Pan Orient was issued a tax payable notification for $7.0 million, has filed an objection letter and this amount is not recorded in the consolidated financial statements and is pending the outcome of the objection filed.

20) SUBSEQUENT EVENTS

Subsequent to year end the joint venture partners in Andora's Sawn Lake SAGD demonstration project repurchased the 3% gross overriding royalty that Andora held on their working interest for $2.7 million.

Subsequent to year end the Company obtained approval from the Government of Thailand for the L53-G production license of 6.29 square kilometers and the associated production environmental impact assessment.

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