



PAN ORIENT ENERGY CORP.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE
THREE MONTHS ENDED MARCH 31, 2014**

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

(\$000s)	March 31 2014	December 31 2013
Assets		
Current		
Cash and cash equivalents	35,724	41,831
Accounts receivable	6,396	8,896
Taxes receivable (note 7)	12,915	12,915
	55,035	63,642
Deposits		
	2,341	2,254
Property, plant and equipment (note 4)	60,432	58,265
Exploration and evaluation (note 5)	171,387	162,374
	289,195	286,535
Liabilities		
Current		
Accounts payable and accrued liabilities	13,334	18,006
Taxes payable (note 7)	2	1
	13,336	18,007
Deferred tax liabilities	24,755	23,124
Employee pension liabilities	76	68
Decommissioning provision (note 6)	3,508	3,459
	41,675	44,658
Shareholders' equity		
Share capital (note 8)	117,656	117,656
Contributed surplus	21,547	21,174
Non-controlling interest	17,306	17,310
Accumulated other comprehensive income	7,990	2,536
Retained earnings	83,021	83,201
	247,520	241,877
Commitments (note 11)		
Contingencies (note 12)		
	289,195	286,535

See accompanying notes to the consolidated financial statements.

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

(\$000s, except per share amounts)	Three Months Ended March 31	
	2014	2013
Revenue		
Oil	6,750	7,444
Royalties	(329)	(359)
Interest	90	308
	6,511	7,393
Expenses		
Production and operating	1,038	752
Transportation	104	111
Depletion and depreciation	3,458	3,677
Exploration	309	-
General and administrative	1,221	890
Stock-based compensation	301	480
Foreign exchange loss (gain)	(451)	78
	5,980	5,988
Income (loss) before taxes and non-controlling interest	531	1,405
Taxes (note 7)		
Current income tax expense (recovery)	1	(81)
Deferred income tax expense	774	1,210
	775	1,129
Net income (loss)	(244)	276
Foreign exchange gain on translation of foreign operations	5,454	5,541
Comprehensive income	5,210	5,817
Net income (loss) attributable to:		
Common shareholders	(185)	341
Non-controlling interest	(59)	(65)
Net income (loss)	(244)	276
Comprehensive income attributable to:		
Common shareholders	5,269	5,882
Non-controlling interest	(59)	(65)
Comprehensive income	5,210	5,817
Net income (loss) per share attributable to common shareholders (note 8)		
Basic	\$ (0.00)	\$ 0.01
Diluted	\$ (0.00)	\$ 0.01

See accompanying notes to the consolidated financial statements.

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

(\$000s)	Common Shares	Contributed Surplus	NCI	AOCI	Retained Earnings	Total
Balance as at December 31, 2012	117,430	18,460	17,683	(4,297)	176,563	325,839
Net income (loss)	-	-	(65)	-	341	276
Stock-based compensation expense	-	480	-	-	-	480
Capitalized stock-based compensation	-	420	-	-	-	420
Options exercised	130	-	-	-	-	130
Transfer from contributed surplus	96	(96)	-	-	-	-
Other comprehensive income	-	-	-	5,541	-	5,541
Balance as at March 31, 2013	117,656	19,264	17,618	1,244	176,904	332,686
Balance as at December 31, 2013	117,656	21,174	17,310	2,536	83,201	241,877
Net loss	-	-	(59)	-	(185)	(244)
Stock-based compensation expense	-	301	-	-	-	301
Capitalized stock-based compensation	-	72	-	-	-	72
Shares issued to non-controlling interest	-	-	60	-	-	60
Transactions effecting non-controlling interest	-	-	(5)	-	5	-
Other comprehensive income	-	-	-	5,454	-	5,454
Balance as at March 31, 2014	117,656	21,547	17,306	7,990	83,021	247,520

See accompanying notes to the consolidated financial statements.

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

(\$000s)	Three Months Ended	
	March 31	
	2014	2013
Cash Provided From (Used in)		
Operating Activities		
Net income (loss)	(244)	276
Items not affecting cash		
Taxes	775	1,129
Depletion and depreciation	3,458	3,677
Stock-based compensation	301	480
Stock-based payments	60	-
Accretion	18	21
	4,368	5,583
Changes in non-cash working capital	231	613
	4,599	6,196
Investing Activities		
Petroleum and natural gas assets	(11,010)	(34,509)
Disposal of petroleum and natural gas assets	2,698	-
Deposits	-	(61)
Taxes paid on gain from sale of Thailand interests	-	(14,718)
Change in non-cash working capital	(2,504)	9,888
	(10,816)	(39,400)
Financing Activities		
Issue of common shares	-	130
	-	130
Change in cash and cash equivalents	(6,217)	(33,074)
Effect of foreign exchange on cash balances	110	(228)
Cash and cash equivalents, beginning of period	41,831	133,836
Cash and cash equivalents, end of period	35,724	100,534

See accompanying notes to the consolidated financial statements.

Pan Orient Energy Corp.
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

1) CORPORATE INFORMATION

Pan Orient Energy Corp. (~~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

The condensed interim consolidated financial statement for the Company as at March 31, 2014 and for the three months ended March 31, 2014 and 2013 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2013. The condensed interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements except as noted below (note 3).

The condensed interim consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with the International Accounting Standards 34, ~~Interim Financial Reporting~~.

The condensed interim consolidated financial statements were approved by the Company's Board of Directors on May 26, 2014.

3) CHANGE IN ACCOUNTING POLICIES

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

IFRIC 21 Levies

As of January 1, 2014 the Company adopted IFRIC 21 which clarifies the requirements for recognizing a liability for a levy imposed by a government. The adoption of this interpretation did not impact these condensed interim consolidated financial statements.

IAS 32 Financial Instruments: Presentation

As of January 1, 2014 the Company adopted the amendments to IAS 32 which clarify requirements for offsetting of financial assets and financial liabilities. The adoption of this amendment did not impact these condensed interim consolidated financial statements.

IAS 36 Impairment of Assets

As of January 1, 2014 the Company adopted the amendments to IAS 36 which requires additional disclosure on the recoverable amount of an impaired cash generating unit. The adoption of this amendment did not impact these condensed interim consolidated financial statements.

Pan Orient Energy Corp.
Notes to the Condensed Interim Consolidated Financial Statements
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4) PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the carrying amount of property, plant and equipment as at March 31, 2014 is set out below.

(\$000s)	Canada	Thailand	Indonesia	Total
Cost				
At December 31, 2013	1,342	86,234	179	87,755
Additions	-	2,278	-	2,278
Changes in decommissioning provision	-	418	-	418
Foreign currency translation	-	4,422	16	4,438
At March 31, 2014	1,342	93,352	195	94,889
Accumulated depletion and depreciation				
At December 31, 2013	(585)	(28,808)	(97)	(29,490)
Charge for the period	(29)	(3,417)	(12)	(3,458)
Foreign currency translation	-	(1,496)	(13)	(1,509)
At March 31, 2014	(614)	(33,721)	(122)	(34,457)
Net book value				
At December 31, 2013	757	57,426	82	58,265
At March 31, 2014	728	59,631	73	60,432

General and administrative costs of \$103 thousand (March 31, 2013 - \$89 thousand) that were directly related to development and production activities have been capitalized as property, plant and equipment.

\$17.7 million (March 31, 2013 - \$8.8 million) of future development costs were included in the depletable base when calculating depletion.

5) EXPLORATION AND EVALUATION

A reconciliation of the carrying amount of E&E assets as at March 31, 2014 is set out below.

(\$000s)	Canada	Thailand	Indonesia	Total
At December 31, 2013	67,442	17,213	77,719	162,374
Additions	4,218	276	4,310	8,804
Disposition	(2,698)	-	-	(2,698)
Changes in decommissioning provision	(482)	-	-	(482)
Foreign currency translation	-	887	2,502	3,389
At March 31, 2014	68,480	18,376	84,531	171,387

General and administrative costs totaling \$0.6 million (March 31, 2013 - \$1.5 million) and stock-based compensation totaling \$72 thousand (March 31, 2013 - \$420 thousand) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

In the first quarter of 2014 the joint venture partner 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.

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.

Pan Orient Energy Corp.
Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited)

6) DECOMMISSIONING PROVISION

(\$000s)	Three Months Ended March 31	
	2014	2013
Decommissioning provision, beginning of period	3,459	2,192
Obligations incurred	99	583
Revisions to obligations	(64)	(250)
Obligations settled	(99)	-
Accretion	18	14
Foreign currency translation	95	32
Decommissioning provision, end of period	3,508	2,571

Estimated costs have been discounted at the risk-free interest rate in the jurisdiction of the expenditure which averaged 2% at March 31, 2014 (March 31, 2013 . 3%).

7) TAXES

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

A summary of Thailand taxes payable for the period ended March 31, 2014 and 2013 is as follows:

(\$000s)	Three Months Ended March 31	
	2014	2013
Balance, beginning of period	1	3
Current income tax expense	1	1
Foreign currency translation	-	(1)
Balance, end of period	2	3

A summary of Canadian taxes payable (receivable) for the period ended March 31, 2014 and 2013 is as follows:

(\$000s)	Three Months Ended March 31	
	2014	2013
Balance, beginning of period	(12,915)	14,718
Current income tax (recovery) expense	-	(82)
Taxes paid	-	(14,718)
Balance, end of period	(12,915)	(82)

Current income tax receivable in Canada is based on management's application of current income tax laws and may be assessed differently by the Canadian taxation authorities.

Pan Orient Energy Corp.
Notes to the Condensed Interim Consolidated Financial Statements
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8) SHARE CAPITAL

(a) Authorized

Unlimited Common Voting Shares
 Unlimited Preferred Shares

(b) Issued and Outstanding Class A Common Shares

	Number of shares	Amount (000s)
Common Shares		
Balance as at December 31, 2013 and March 31, 2014	56,760,307	\$ 117,656

(c) Options to Purchase Common Shares

	Number of Options	Weighted Average Exercise Price (\$)
Options outstanding at December 31, 2013 and March 31, 2014	5,589,500	4.01

Options Outstanding at March 31, 2014					Options Exercisable at March 31, 2014		
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 . 2.00	1,186,000	1.92	4.67	395,333	1.92	4.67	
2.01 . 4.00	1,950,000	2.74	2.85	1,396,669	2.75	2.61	
4.01 . 6.00	450,000	4.35	3.58	316,666	4.43	3.48	
6.01 . 6.40	2,003,500	6.40	0.08	2,003,500	6.40	0.08	
1.92 . 6.40	5,589,500	4.01	2.30	4,112,168	4.58	1.64	

(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 period ended March 31, 2014 and 2013 are as follows:

	Three Months Ended March 31	
	2014	2013
Risk free interest rate (%)	-	1
Expected lives (years)	-	5
Expected volatility (%)	-	68
Dividend per share (%)	-	-
Forfeiture rate (%)	-	10
Weighted average fair value, per option	-	\$ 2.36

Pan Orient Energy Corp.
Notes to the Condensed Interim Consolidated Financial Statements
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(e) Andora Energy Corporation

i) Issued and Outstanding Class A Common Shares

As at March 31, 2014 Andora had 100.1 million (December 31, 2013 . 100.0 million) common shares issued and outstanding of which Pan Orient held 71.8% (December 31, 2013 . 71.8%).

In the first quarter of 2014 Andora issued 100,000 common shares valued at \$0.60 per share as consideration for cancelling 447,965 options to purchase common shares.

ii) Options to Purchase Common Shares of Andora

	Number of options	Weighted average exercise price (\$)
Balance as at December 31, 2013	10,000,000	0.60
Cancelled	(447,965)	(0.60)
Balance as at March 31, 2014	9,552,035	0.60
Exercisable at March 31, 2014	6,807,963	0.60

(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 (loss) per share is as follows:

	Periods Ended March 31	
	2014	2013
Weighted average common shares - basic	56,760,307	56,748,622
Dilutive effect of stock options	-	464,761
Weighted average common shares - diluted	56,760,307	57,213,383

Options to purchase 5,589,500 common shares outstanding at March 31, 2014 (March 31, 2013 . 3,078,500) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

9) FINANCIAL INSTRUMENTS

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 (USD). Changes in foreign exchange rates between the Canadian dollar and the U.S. dollar and Thai baht can affect net income and other comprehensive income.

As at March 31 the following financial instruments were denominated in currencies other than the Canadian dollar:

	March 31, 2014		March 31, 2013	
	Thai baht (000s of Thai baht)	US dollar (\$000s)	Thai baht (000s of Thai baht)	US dollar (\$000s)
Cash and cash equivalents	95,832	5,911	119,490	8,536
Accounts receivable	124,692	262	104,381	4,792
Deposits	31,603	1,864	26,733	1,857
Accounts payable	(64,720)	(6,917)	(194,502)	(16,716)
Taxes payable	(49)	-	(91)	-
Net exposure in functional currency	187,358	1,120	56,011	(1,531)
Net exposure in Canadian dollars ⁽¹⁾ (\$000s)	6,455	1,239	1,966	(1,581)

(1) Translated at March 31, 2014 and 2013 exchange rates.

Pan Orient Energy Corp.
Notes to the Condensed Interim Consolidated Financial Statements
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10) 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 periods ended March 31:

(\$000s)	Three Months Ended March 31	
	2014	2013
Petroleum revenue		
Thailand	6,750	7,444
Indonesia	-	-
Canada	-	-
Total	6,750	7,444
Current income tax (recovery) expense		
Thailand	1	1
Indonesia	-	-
Canada	-	(82)
Total	1	(81)
Depletion and depreciation		
Thailand	3,417	3,626
Indonesia	12	9
Canada	29	42
Total	3,458	3,677
Net income (loss) attributable to common shareholders		
Thailand	729	1,013
Indonesia	(726)	(91)
Canada	(188)	(581)
Total	(185)	341
Capital expenditures ⁽¹⁾		
Thailand	2,554	13,793
Indonesia	4,310	18,492
Canada	4,146	2,224
Total	11,010	34,509

(1) Does not include decommissioning provision and acquisition activities

Pan Orient Energy Corp.
Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited)

11) COMMITMENTS

As at March 31, 2014 the Company's estimated outstanding capital commitments are as follows:

Country and Concession Name	Remaining Work Program Commitment	Obligation Ending	Estimated Net Financial Commitment	
			USD ⁽¹⁾ (\$000s)	CAD ⁽¹⁾ (\$000s)
Thailand				
L53/48	▪ Study and training fund	December 2014	17	19
	▪ Geological studies	January 2016	10	11
	▪ Study and training fund	January 2016	90	100
L45/50 ⁽²⁾	▪ Unfulfilled commitments have been accrued	-	-	-
Total Thailand			117	130
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	32
	▪ Drill one pre-exploration well	November 2014	5,023	5,531
	▪ Geological studies	November 2014	50	55
	▪ 425 km 2D seismic acquisition and processing	November 2014	84	92
	▪ Geological studies	November 2014	75	83
	▪ Drill one exploration well	November 2014	3,000	3,303
Total Indonesia			8,261	9,096
Canadian Heavy Oil Sands – Andora Energy Corporation				
Sawn Lake, Alberta	▪ Outstanding purchase orders on capital expenditures	June 2014	228	252
	▪ Natural gas pipeline tie-in and tariff (CDN \$15 thousand per month)	October 2018	373	413
Total Canada			601	665
			8,979	9,891

(1) Translated at March 31, 2014 exchange rates.

(2) Pursuant to the Farm-in Agreement, Pan Orient earned a 20% interest in Concession L45 for the completion of seismic acquisition and processing. Pan Orient elected not to drill the additional two wells to earn a further 40% interest, however, Pan Orient is registered with

Pan Orient Energy Corp.
Notes to the Condensed Interim Consolidated Financial Statements
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the government of Thailand as holding a 60% interest in the L45 Concession. The L45 Concession expired on April 27, 2014 and the Company is currently negotiating the settlement of the unfulfilled commitments with the Government of Thailand. The Company has accrued \$0.5 million for expected unfulfilled commitments.

- (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) *In 2013 the Company decided to relinquish the South CPP PSC. As part of the relinquishment the Company will be required to pay the GOI for unfulfilled commitments. The Company has accrued \$2.8 million as at March 31, 2014 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.

12) 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 \$7.8 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.



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1505, 505 - 3rd Street SW, Calgary Alberta Canada T2P 3E6