



PAN ORIENT ENERGY CORP.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014**

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

(\$000s)	September 30 2014	December 31 2013
Assets		
Current		
Cash and cash equivalents	31,623	41,831
Accounts receivable	4,538	8,896
Taxes receivable (note 7)	12,915	12,915
	49,076	63,642
Deposits	940	2,254
Property, plant and equipment (note 4)	54,921	58,265
Exploration and evaluation (note 5)	179,349	162,374
Total assets	284,286	286,535
Liabilities		
Current		
Accounts payable and accrued liabilities	5,443	18,006
Taxes payable (note 7)	-	1
	5,443	18,007
Deferred tax liabilities	26,470	23,124
Employee pension liabilities	88	68
Decommissioning provision (note 6)	3,419	3,459
Total liabilities	35,420	44,658
Shareholders' equity		
Share capital (note 8)	117,656	117,656
Contributed surplus	22,210	21,174
Non-controlling interest	17,305	17,310
Accumulated other comprehensive income	9,184	2,536
Retained earnings	82,511	83,201
Total shareholders' equity	248,866	241,877
Total liabilities and shareholders' equity	284,286	286,535

Commitments (note 11)
Contingencies (note 12)
Subsequent events (note 13)

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 September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Revenue				
Oil	5,840	7,397	19,875	23,316
Royalties	(286)	(368)	(979)	(1,152)
Interest	59	159	222	679
	5,613	7,188	19,118	22,843
Expenses				
Production and operating	766	1,084	2,688	2,747
Transportation	95	119	315	371
Depletion and depreciation	3,182	3,195	10,414	10,137
Exploration	21	-	315	-
General and administrative	1,087	1,256	3,767	3,002
Stock-based compensation	252	391	849	1,354
Foreign exchange (gain) loss	(62)	48	(548)	23
Gain on 2012 sale of Thailand interests	-	-	(174)	-
Impairment on Indonesia assets	-	4,556	-	104,183
	5,341	10,649	17,626	121,817
Income (loss) before taxes and non-controlling interest	272	(3,461)	1,492	(98,974)
Taxes (note 7)				
Current income tax expense (recovery)	-	(99)	1	(2,035)
Deferred income tax expense (recovery)	627	(238)	2,246	3,592
	627	(337)	2,247	1,557
Net loss	(355)	(3,124)	(755)	(100,531)
Other comprehensive income (loss)				
Foreign exchange gain (loss) on translation of foreign operations	6,359	(2,628)	6,648	5,625
Total comprehensive income (loss)	6,004	(5,752)	5,893	(94,906)
Net loss attributable to:				
Common shareholders	(363)	(3,109)	(695)	(100,445)
Non-controlling interest	8	(15)	(60)	(86)
Net loss	(355)	(3,124)	(755)	(100,531)
Total comprehensive income (loss) attributable to:				
Common shareholders	5,996	(5,737)	5,953	(94,820)
Non-controlling interest	8	(15)	(60)	(86)
Total comprehensive income (loss)	6,004	(5,752)	5,893	(94,906)
Net loss per share attributable to common shareholders (note 8)				
Basic and diluted	\$ (0.00)	\$ (0.05)	\$ (0.01)	\$ (1.77)

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 January 1, 2013	117,430	18,460	17,683	(4,297)	176,563	325,839
Net loss	-	-	(86)	-	(100,445)	(100,531)
Stock-based compensation expense	-	1,354	-	-	-	1,354
Capitalized stock-based compensation	-	740	-	-	-	740
Options exercised	130	-	-	-	-	130
Transfer from contributed surplus	96	(96)	-	-	-	-
Other comprehensive income	-	-	-	5,625	-	5,625
Balance as at September 30, 2013	117,656	20,458	17,597	1,328	76,118	233,157
Balance as at January 1, 2014	117,656	21,174	17,310	2,536	83,201	241,877
Net loss	-	-	(60)	-	(695)	(755)
Stock-based compensation expense	-	849	-	-	-	849
Capitalized stock-based compensation	-	187	-	-	-	187
Shares issued to non-controlling interest	-	-	60	-	-	60
Transactions effecting non-controlling interest	-	-	(5)	-	5	-
Other comprehensive income	-	-	-	6,648	-	6,648
Balance as at September 30, 2014	117,656	22,210	17,305	9,184	82,511	248,866

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		Nine Months Ended	
	September 30	2013	September 30	2013
	2014		2014	
Cash Provided From (Used in)				
Operating Activities				
Net loss	(355)	(3,124)	(755)	(100,531)
Adjustments for non-cash items:				
Deferred tax expense (recovery)	627	(238)	2,246	3,592
Depletion and depreciation	3,182	3,195	10,414	10,137
Stock-based compensation	252	391	849	1,354
Accretion	15	21	48	67
Stock-based payments	-	-	60	-
Gain on 2012 sale of Thailand interests	-	-	(174)	-
Gain on settlement of decommissioning provision	-	(4)	-	(19)
Impairment on Indonesia assets	-	4,556	-	104,183
Decommissioning expenditures	(127)	-	(225)	-
Changes in non-cash working capital	590	(389)	201	(1,842)
Cash flow from operating activities	4,184	4,408	12,664	16,941
Investing Activities				
Petroleum and natural gas assets	(3,163)	(17,649)	(18,355)	(90,136)
Disposal of petroleum and natural gas assets	-	-	2,698	-
Proceeds from 2012 sale of Thailand interests	-	-	174	-
Deposits	1,558	42	1,314	(46)
Taxes paid on gain from sale of Thailand interests	-	1,071	-	(13,647)
Changes in non-cash working capital	1,526	616	(8,387)	8,387
Cash flow used in investing activities	(79)	(15,920)	(22,556)	(95,442)
Financing Activities				
Issuance of common shares	-	-	-	130
Cash flow from financing activities	-	-	-	130
Change in cash and cash equivalents	4,105	(11,512)	(9,892)	(78,371)
Effect of foreign exchange on cash balances	344	(664)	(316)	(1,566)
Cash and cash equivalents, beginning of period	27,174	66,085	41,831	133,836
Cash and cash equivalents, end of period	31,623	53,909	31,623	53,909

See accompanying notes to the consolidated financial statements.

1) CORPORATE INFORMATION

Pan Orient Energy Corp. (the "Company") is an Alberta, Canada corporation with shares listed on the TSX Venture Exchange (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 statements for the Company as at September 30, 2014 and for the three and nine months ended September 30, 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 November 27, 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
(Expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

4) PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the carrying amount of property, plant and equipment as at September 30, 2014 is set out below.

(\$000s)	Thailand	Indonesia	Canada	Total
Cost				
At December 31, 2013	86,234	179	1,342	87,755
Additions	3,237	-	-	3,237
Changes in decommissioning provision	353	-	-	353
Foreign currency translation	5,508	22	-	5,530
At September 30, 2014	95,332	201	1,342	96,875
Accumulated depletion and depreciation				
At December 31, 2013	(28,808)	(97)	(585)	(29,490)
Depletion and depreciation	(10,296)	(35)	(83)	(10,414)
Foreign currency translation	(2,031)	(19)	-	(2,050)
At September 30, 2014	(41,135)	(151)	(668)	(41,954)
Net book value				
At December 31, 2013	57,426	82	757	58,265
At September 30, 2014	54,197	50	674	54,921

General and administrative costs totaling \$0.3 million (September 30, 2013 - \$0.3 million) that were directly related to development activities have been capitalized as property, plant and equipment.

\$17.8 million (September 30, 2013 - \$9.3 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 exploration and evaluation (E&E) assets as at September 30, 2014 is set out below.

(\$000s)	Thailand	Indonesia	Canada	Total
At December 31, 2013	17,213	77,719	67,442	162,374
Additions	679	5,840	8,786	15,305
Disposition	-	-	(2,698)	(2,698)
Changes in decommissioning provision	-	-	(464)	(464)
Foreign currency translation	1,115	3,717	-	4,832
At September 30, 2014	19,007	87,276	73,066	179,349

General and administrative costs totaling \$1.8 million (September 30, 2013 - \$3.6 million) and stock-based compensation totaling \$187 thousand (September 30, 2013 - \$740 thousand) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

As at September 30, 2014 Andora's Sawn Lake steam assisted gravity drainage (SAGD) demonstration project has not yet proven that it is commercially viable and all related costs and revenues are being capitalized as E&E assets until commercial viability is achieved. Commercial viability is determined based on several factors including the assignment of proven and probable reserves. Upon being determined commercially viable the related E&E assets will be tested for impairment and reclassified to property, plant and equipment where they will be depleted.

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
(Expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

6) DECOMMISSIONING PROVISION

(\$000s)	Nine Months Ended September 30	
	2014	2013
Decommissioning provision, beginning of period	3,459	2,192
Obligations incurred	99	1,448
Revisions to obligations	(210)	(207)
Decommissioning expenditures	(225)	(107)
Accretion	48	53
Foreign currency translation	248	(15)
Decommissioning provision, end of period	3,419	3,364

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% for inflation, required to settle the Company's decommissioning provision are estimated to be \$3.6 million (September 30, 2013 . \$4.2 million). Payments to settle the provision will be made over the operating lives of the underlying assets and are estimated to be incurred between 2014 and 2024. 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 2% at September 30, 2014 (September 30, 2013 . 2%).

7) TAXES

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

A summary of Thailand taxes payable for the period ended September 30, 2014 and 2013 is as follows:

(\$000s)	Nine Months Ended September 30	
	2014	2013
Balance, beginning of period	1	3
Current income tax expense	1	2
Taxes paid	(2)	(4)
Balance, end of period	-	1

A summary of Canadian taxes payable (receivable) for the period ended September 30, 2014 and 2013 is as follows:

(\$000s)	Nine Months Ended September 30	
	2014	2013
Balance, beginning of period	(12,915)	14,718
Current income tax recovery	-	(2,037)
Taxes paid	-	(14,718)
Taxes recovered	-	1,071
Balance, end of period	(12,915)	(966)

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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(Unaudited)

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 September 30, 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	5,589,500	4.01
Forfeited	(75,000)	2.71
Expired	(2,303,500)	5.88
Options outstanding at September 30, 2014	3,211,000	2.70

Options Outstanding at September 30, 2014				Options Exercisable at September 30, 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	4.17	395,333	1.92	4.17
2.01 . 4.00	1,535,000	2.72	2.93	1,518,334	2.72	2.93
4.01 . 6.00	450,000	4.35	3.08	316,666	4.43	2.98
6.01 . 6.32	40,000	6.32	1.16	40,000	6.32	1.16
1.92 . 6.32	3,211,000	2.70	3.39	2,270,333	2.88	3.12

(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 September 30, 2014 and 2013 are as follows:

	Nine Months Ended September 30	
	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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(Unaudited)

(e) Andora Energy Corporation

i) Issued and Outstanding Class A Common Shares

As at September 30, 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 September 30, 2014	9,552,035	0.60
Exercisable at September 30, 2014	9,552,035	0.60

(f) Net Loss per Share Attributable to Common Shareholders

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Weighted average common shares . basic and diluted	56,760,307	56,760,307	56,760,307	56,756,351

Options to purchase 3,211,000 common shares outstanding at September 30, 2014 (September 30, 2013 . 4,705,167) 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 earnings.

As at September 30 the following financial instruments were denominated in currencies other than the Canadian dollar:

	September 30, 2014		September 30, 2013	
	Thai baht (000s of Thai baht)	US dollar (\$000s)	Thai baht (000s of Thai baht)	US dollar (\$000s)
Cash and cash equivalents	213,711	4,215	93,817	2,296
Accounts receivable	84,465	101	149,509	4,822
Deposits	31,364	378	32,950	1,873
Accounts payable	(31,373)	(1,929)	(148,461)	(14,932)
Taxes payable	39	-	(20)	-
Net exposure in functional currency	298,206	2,765	127,795	(5,941)
Net exposure in Canadian dollars ⁽¹⁾ (\$000s)	10,393	3,090	4,247	(6,140)

(1) Translated at September 30, 2014 and 2013 exchange rates.

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

10) SEGMENTED INFORMATION

The Company has properties in three countries, each of which is considered a reportable 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 September 30:

(\$000s)	As at September 30, 2014				As at December 31, 2013			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Property, plant and equipment	54,197	50	674	54,921	57,426	82	757	58,265
Exploration and evaluation	19,007	87,276	73,066	179,349	17,213	77,719	67,442	162,374
Other assets	11,492	3,932	34,592	50,016	10,267	4,459	51,170	65,896
Total assets	84,696	91,258	108,332	284,286	84,906	82,260	119,369	286,535

(\$000s)	September 30, 2014				September 30, 2013			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Oil revenue	5,840	-	-	5,840	7,397	-	-	7,397
Interest revenue	2	-	57	59	2	-	157	159
Depletion and depreciation	3,147	11	24	3,182	3,148	12	35	3,195
Net income (loss) ⁽¹⁾	570	(428)	(505)	(363)	2,503	(5,165)	(447)	(3,109)
Capital expenditures	483	803	1,877	3,163	5,506	13,208	(1,065)	17,649

(1) Net income (loss) attributable to common shareholders.

(\$000s)	September 30, 2014				September 30, 2013			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Oil revenue	19,875	-	-	19,875	23,316	-	-	23,316
Interest revenue	16	-	206	222	27	-	652	679
Depletion and depreciation	10,296	35	83	10,414	9,988	34	115	10,137
Net income (loss) ⁽¹⁾	2,144	(1,380)	(1,459)	(695)	4,116	(104,919)	358	(100,445)
Capital expenditures	3,916	5,840	8,599	18,355	38,444	48,265	3,427	90,136

(1) Net income (loss) attributable to common shareholders.

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

11) COMMITMENTS

As at September 30, 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	▪ Geological studies	January 2016	10	11
	▪ Study and training fund	January 2016	92	103
Total Thailand			102	114
Indonesia ⁽²⁾				
East Jabung ⁽³⁾	▪ Geological studies	November 2015	154	172
	▪ Drill two exploration wells	November 2015	7,833	8,736
Total Indonesia			7,987	8,908
Canadian Heavy Oil Sands – Andora Energy Corporation				
Sawn Lake, Alberta	▪ Natural gas pipeline tie-in and tariff	October 2018	328	368
Total Canada			328	368
			8,417	9,390

(1) Translated at September 30, 2014 exchange rates.

(2) Indonesia financial commitments as provided above represent the required initial 3-year firm exploration work program required under the PSC. The extension of these initial 3-year firm exploration work program commitments have been successfully negotiated in the past with the Government of Indonesia ("GOI"). 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). 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.

(3) In the third quarter of 2014 the Company received approval from the GOI to extend the East Jabung PSC's work program commitments to November 2015.

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 2013 Land and Building Tax using a new framework, especially for the calculation of surface Land and Building Tax on offshore acreage, which is being challenged by the impacted oil and gas companies in Indonesia. Pan Orient was issued a Tax Assessment and Notification for the East Jabung PSC equivalent to \$7.2 million at current exchange rates, for which \$7.0 million is associated with the offshore acreage. Pan Orient lodged an Objection with the Indonesian Tax Office in September 2013. In addition, the Company submitted an application in the fourth quarter of 2013 to the Government of Indonesia to voluntarily relinquish the offshore area of the East Jabung PSC. On September 25, 2014 the Indonesia Tax Office rejected the Company's Objection and also rejected the objections of the other oil and gas companies on this issue. It is the intention of Pan Orient to now proceed to Appeal the Objection Decisions to the Indonesian Tax Court in December 2014, which the Company expects will require a payment equivalent of 50% of the Land and Building tax assessment. Management believes that the Company has a strong legal position against the taxes assessed and the amount has not been recorded in these condensed interim consolidated financial statements.

13) SUBSEQUENT EVENTS

(a) Thailand – Concession L53/48 (100% working interest and operator at September 30, 2014)

Subsequent to September 30, 2014 the Company entered into an agreement for the sale of a 50% equity interest in its wholly owned subsidiary Pan Orient Energy (Siam) Ltd. for a cash price of USD \$42.5 million (\$47.6 million¹) including a working capital adjustment of USD \$2.4 million (\$2.7 million¹). POES holds the Company's 100% interest in Concession L53/48 in Thailand and is the operator of the concession after the sale. The transaction is anticipated to close in January 2015 and is subject to the purchaser's shareholder approval, financing, certain regulatory and other third party approvals and waivers, as well as other customary closing conditions. A USD \$4.0 million (\$4.5 million¹) break fee is payable by the purchaser if the purchaser's shareholder approval or financing is not obtained.

(b) Indonesia – East Jabung PSC (100% working interest and operator at September 30, 2014)

Subsequent to September 30, 2014 the Company entered into an agreement for the transfer of a 51% direct working interest and operatorship of the East Jabung PSC to a wholly owned subsidiary of Talisman Energy for consideration of:

- An upfront cash payment of USD \$8.0 million (\$9.0 million¹)
- A firm commitment to fund the first USD \$10.0 million (\$11.2 million¹) towards the first exploration well in addition to all related G&A and overhead costs incurred by the operator until the USD \$10.0 million (\$11.2 million¹) expenditure has been completed,
- An option for Pan Orient to acquire a 20% working interest in a Talisman operated South Sumatra Joint Study Area.
- A contingent commitment to fund the first USD \$5.0 million (\$5.6 million¹) towards an appraisal well, if justified, in addition to all associated G&A and overhead incurred by the operator until the first USD \$5.0 million (\$5.6 million¹) expenditure has been completed.

The transaction is subject only to Government of Indonesia approval and is expected to close upon the receipt of this approval which is anticipated for approximately March 2015.

¹ Translated at September 30, 2014 exchange rates



PAN ORIENT ENERGY CORP.

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