



PAN ORIENT ENERGY CORP.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014**

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

| (\$000s) | June 30 2014 | December 31 2013 |
|---|-----------------|---------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | 27,174 | 41,831 |
| Accounts receivable | 7,035 | 8,896 |
| Taxes receivable (note 7) | 12,915 | 12,915 |
| | 47,124 | 63,642 |
| Deposits | 2,498 | 2,254 |
| Property, plant and equipment (note 4) | 55,284 | 58,265 |
| Exploration and evaluation (note 5) | 171,766 | 162,374 |
| Total assets | 276,672 | 286,535 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | 5,832 | 18,006 |
| Taxes payable (note 7) | 1 | 1 |
| | 5,833 | 18,007 |
| Deferred tax liabilities | 24,939 | 23,124 |
| Employee pension liabilities | 79 | 68 |
| Decommissioning provision (note 6) | 3,265 | 3,459 |
| | 34,116 | 44,658 |
| Shareholders' equity | | |
| Share capital (note 8) | 117,656 | 117,656 |
| Contributed surplus | 21,904 | 21,174 |
| Non-controlling interest | 17,297 | 17,310 |
| Accumulated other comprehensive income | 2,825 | 2,536 |
| Retained earnings | 82,874 | 83,201 |
| Total shareholders' equity | 242,556 | 241,877 |
| Total liabilities and equity | 276,672 | 286,535 |

Commitments (note 11)

Contingencies (note 12)

See accompanying notes to the consolidated financial statements.

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

| (\$000s, except per share amounts) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-----------|-----------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | | | | |
| Oil | 7,285 | 8,475 | 14,035 | 15,919 |
| Royalties | (364) | (425) | (693) | (784) |
| Interest | 73 | 212 | 163 | 520 |
| | 6,994 | 8,262 | 13,505 | 15,655 |
| Expenses | | | | |
| Production and operating | 884 | 911 | 1,922 | 1,663 |
| Transportation | 116 | 141 | 220 | 252 |
| Depletion and depreciation | 3,774 | 3,265 | 7,232 | 6,942 |
| Exploration | (15) | - | 294 | - |
| General and administrative | 1,459 | 856 | 2,680 | 1,746 |
| Stock-based compensation | 296 | 483 | 597 | 963 |
| Foreign exchange gain | (35) | (103) | (486) | (25) |
| Proceeds from 2012 sale of Thailand interests | (174) | - | (174) | - |
| Impairment on Indonesia assets | - | 99,627 | - | 99,627 |
| | 6,305 | 105,180 | 12,285 | 111,168 |
| Income (loss) before taxes and non-controlling interest | 689 | (96,918) | 1,220 | (95,513) |
| Taxes (note 7) | | | | |
| Current income tax expense (recovery) | - | (1,855) | 1 | (1,936) |
| Deferred income tax expense | 845 | 2,620 | 1,619 | 3,830 |
| | 845 | 765 | 1,620 | 1,894 |
| Net loss | (156) | (97,683) | (400) | (97,407) |
| Other comprehensive income (loss) | | | | |
| Foreign exchange gain (loss) on translation of foreign operations | (5,165) | 2,712 | 289 | 8,253 |
| Total comprehensive loss | (5,321) | (94,971) | (111) | (89,154) |
| Net loss attributable to: | | | | |
| Common shareholders | (147) | (97,677) | (332) | (97,336) |
| Non-controlling interest | (9) | (6) | (68) | (71) |
| Net loss | (156) | (97,683) | (400) | (97,407) |
| Total comprehensive loss attributable to: | | | | |
| Common shareholders | (5,312) | (94,965) | (43) | (89,083) |
| Non-controlling interest | (9) | (6) | (68) | (71) |
| Total comprehensive loss | (5,321) | (94,971) | (111) | (89,154) |
| Net loss per share attributable to common shareholders (note 8) | | | | |
| Basic and diluted | \$ (0.01) | \$ (1.73) | \$ (0.01) | \$ (1.72) |

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 loss | - | - | (71) | - | (97,336) | (97,407) |
| Stock-based compensation expense | - | 963 | - | - | - | 963 |
| Capitalized stock-based compensation | - | 586 | - | - | - | 586 |
| Options exercised | 130 | - | - | - | - | 130 |
| Transfer from contributed surplus | 96 | (96) | - | - | - | - |
| Other comprehensive income | - | - | - | 8,253 | - | 8,253 |
| Balance as at June 30, 2013 | 117,656 | 19,913 | 17,612 | 3,956 | 79,227 | 238,364 |
| Balance as at December 31, 2013 | 117,656 | 21,174 | 17,310 | 2,536 | 83,201 | 241,877 |
| Net loss | - | - | (68) | - | (332) | (400) |
| Stock-based compensation expense | - | 597 | - | - | - | 597 |
| Capitalized stock-based compensation | - | 133 | - | - | - | 133 |
| Shares issued to non-controlling interest | - | - | 60 | - | - | 60 |
| Transactions effecting non-controlling interest | - | - | (5) | - | 5 | - |
| Other comprehensive income | - | - | - | 289 | - | 289 |
| Balance as at June 30, 2014 | 117,656 | 21,904 | 17,297 | 2,825 | 82,874 | 242,556 |

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 June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|-----------------|-----------------------------|-----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Cash Provided From (Used in) | | | | |
| Operating Activities | | | | |
| Net loss | (156) | (97,683) | (400) | (97,407) |
| Adjustments for: | | | | |
| Deferred taxes | 845 | 2,620 | 1,619 | 3,830 |
| Depletion and depreciation | 3,774 | 3,265 | 7,232 | 6,942 |
| Stock-based compensation | 296 | 483 | 597 | 963 |
| Accretion | 15 | 25 | 33 | 46 |
| Stock-based payments | - | - | 60 | - |
| Proceeds from 2012 sale of Thailand interests | (174) | - | (174) | - |
| Gain on settlement of decommissioning provision | - | (15) | - | (15) |
| Impairment on Indonesia assets | - | 99,627 | - | 99,627 |
| Settlement of decommissioning provision | (98) | - | (98) | - |
| Changes in non-cash working capital | (621) | (1,985) | (389) | (1,453) |
| Cash flow from operating activities | 3,881 | 6,337 | 8,480 | 12,533 |
| Investing Activities | | | | |
| Petroleum and natural gas assets | (4,182) | (37,978) | (15,192) | (72,487) |
| Disposal of petroleum and natural gas assets | - | - | 2,698 | - |
| Proceeds from 2012 sale of Thailand interests | 174 | - | 174 | - |
| Deposits | (244) | (27) | (244) | (88) |
| Taxes paid on gain from sale of Thailand interests | - | - | - | (14,718) |
| Changes in non-cash working capital | (7,409) | (2,117) | (9,913) | 7,771 |
| Cash flow used in investing activities | (11,661) | (40,122) | (22,477) | (79,522) |
| Financing Activities | | | | |
| Issuance of common shares | - | - | - | 130 |
| Cash flow from financing activities | - | - | - | 130 |
| Change in cash and cash equivalents | (7,780) | (33,785) | (13,997) | (66,859) |
| Effect of foreign exchange on cash balances | (770) | (664) | (660) | (892) |
| Cash and cash equivalents, beginning of period | 35,724 | 100,534 | 41,831 | 133,836 |
| Cash and cash equivalents, end of period | 27,174 | 66,085 | 27,174 | 66,085 |

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 June 30, 2014 and for the three and six months ended June 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 August 19, 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 June 30, 2014 is set out below.

| (\$000s) | Canada | Thailand | Indonesia | Total |
|---|--------|----------|-----------|----------|
| Cost | | | | |
| At December 31, 2013 | 1,342 | 86,234 | 179 | 87,755 |
| Additions | 27 | 2,978 | - | 3,005 |
| Changes in decommissioning provision | - | 344 | - | 344 |
| Foreign currency translation | - | 1,138 | 1 | 1,139 |
| At June 30, 2014 | 1,369 | 90,694 | 180 | 92,243 |
| Accumulated depletion and depreciation | | | | |
| At December 31, 2013 | (585) | (28,808) | (97) | (29,490) |
| Depletion and depreciation | (59) | (7,149) | (24) | (7,232) |
| Foreign currency translation | - | (237) | - | (237) |
| At June 30, 2014 | (644) | (36,194) | (121) | (36,959) |
| Net book value | | | | |
| At December 31, 2013 | 757 | 57,426 | 82 | 58,265 |
| At June 30, 2014 | 725 | 54,500 | 59 | 55,284 |

General and administrative costs totaling \$0.2 million (June 30, 2013 - \$0.2 million) that were directly related to development and production activities have been capitalized as property, plant and equipment.

\$17.0 million (June 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 assets as at June 30, 2014 is set out below.

| (\$000s) | Canada | Thailand | Indonesia | Total |
|--------------------------------------|---------|----------|-----------|---------|
| At December 31, 2013 | 67,442 | 17,213 | 77,719 | 162,374 |
| Additions | 6,828 | 455 | 5,037 | 12,320 |
| Disposition | (2,698) | - | - | (2,698) |
| Changes in decommissioning provision | (469) | - | - | (469) |
| Foreign currency translation | - | 246 | (7) | 239 |
| At June 30, 2014 | 71,103 | 17,914 | 82,749 | 171,766 |

General and administrative costs totaling \$1.2 million (June 30, 2013 - \$3.1 million) and stock-based compensation totaling \$133 thousand (June 30, 2013 - \$586 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 Sawm 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) | Six Months Ended June 30 | |
|--|-----------------------------|-------|
| | 2014 | 2013 |
| Decommissioning provision, beginning of period | 3,459 | 2,192 |
| Obligations incurred | 99 | 1,338 |
| Revisions to obligations | (224) | (250) |
| Obligations settled | (98) | (49) |
| Accretion | 33 | 32 |
| Foreign currency translation | (4) | 23 |
| Decommissioning provision, end of period | 3,265 | 3,286 |

Estimated costs have been discounted at the risk-free interest rate in the jurisdiction of the expenditure which averaged 2% at June 30, 2014 (June 30, 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 June 30, 2014 and 2013 is as follows:

| (\$000s) | Six Months Ended June 30 | |
|------------------------------|-----------------------------|------|
| | 2014 | 2013 |
| Balance, beginning of period | 1 | 3 |
| Current income tax expense | 1 | 1 |
| Taxes paid | (1) | (3) |
| Balance, end of period | 1 | 1 |

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

| (\$000s) | Six Months Ended June 30 | |
|------------------------------|-----------------------------|----------|
| | 2014 | 2013 |
| Balance, beginning of period | (12,915) | 14,718 |
| Current income tax recovery | - | (1,937) |
| Taxes paid | - | (14,718) |
| Balance, end of period | (12,915) | (1,937) |

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 June 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 | (25,000) | 2.71 |
| Expired | (2,303,500) | 5.88 |
| Options outstanding at June 30, 2014 | 3,261,000 | 2.70 |

| Options Outstanding at June 30, 2014 | | | | | Options Exercisable at June 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 | 4.42 | 395,333 | 1.92 | 4.42 | |
| 2.01 . 4.00 | 1,585,000 | 2.72 | 3.19 | 1,056,669 | 2.71 | 3.19 | |
| 4.01 . 6.00 | 450,000 | 4.35 | 3.34 | 316,666 | 4.43 | 3.24 | |
| 6.01 . 6.32 | 40,000 | 6.32 | 1.41 | 40,000 | 6.32 | 1.41 | |
| 1.92 . 6.32 | 3,261,000 | 2.70 | 3.63 | 1,808,668 | 2.92 | 3.43 | |

(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 June 30, 2014 and 2013 are as follows:

| | Six Months Ended June 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
(Expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

(e) Andora Energy Corporation

i) Issued and Outstanding Class A Common Shares

As at June 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 June 30, 2014 | 9,552,035 | 0.60 |
| Exercisable at June 30, 2014 | 6,807,963 | 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 June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|------------|-----------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Weighted average common shares . basic and diluted | 56,760,307 | 56,760,307 | 56,760,307 | 56,754,340 |

Options to purchase 3,261,000 common shares outstanding at June 30, 2014 (June 30, 2013 . 5,258,500) 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 earnings.

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

| | June 30, 2014 | | June 30, 2013 | |
|--|-------------------------------------|-----------------------|-------------------------------------|-----------------------|
| | Thai baht (000s of Thai baht) | US dollar (\$000s) | Thai baht (000s of Thai baht) | US dollar (\$000s) |
| Cash and cash equivalents | 115,434 | 3,804 | 44,671 | 2,579 |
| Accounts receivable | 104,939 | 104 | 230,785 | 4,830 |
| Deposits | 30,305 | 1,971 | 29,731 | 1,968 |
| Accounts payable | (35,510) | (2,635) | (263,178) | (15,626) |
| Taxes payable | (28) | - | (37) | - |
| Net exposure in functional currency | 215,140 | 3,244 | 41,972 | (6,249) |
| Net exposure in Canadian dollars ⁽¹⁾ (\$000s) | 7,153 | 3,460 | 1,430 | (6,549) |

(1) Translated at June 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 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 June 30:

| (\$000s) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|----------|-----------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Petroleum revenue | | | | |
| Thailand | 7,285 | 8,475 | 14,035 | 15,919 |
| Indonesia | - | - | - | - |
| Canada | - | - | - | - |
| Total | 7,285 | 8,475 | 14,035 | 15,919 |
| Current income tax (recovery) expense | | | | |
| Thailand | - | - | 1 | 1 |
| Indonesia | - | - | - | - |
| Canada | - | (1,855) | - | (1,937) |
| Total | - | (1,855) | 1 | (1,936) |
| Depletion and depreciation | | | | |
| Thailand | 3,732 | 3,214 | 7,149 | 6,840 |
| Indonesia | 12 | 13 | 24 | 22 |
| Canada | 30 | 38 | 59 | 80 |
| Total | 3,774 | 3,265 | 7,232 | 6,942 |
| Net income (loss) attributable to common shareholders | | | | |
| Thailand | 845 | 600 | 1,574 | 1,613 |
| Indonesia | (226) | (99,663) | (952) | (99,754) |
| Canada | (766) | 1,386 | (954) | 805 |
| Total | (147) | (97,677) | (332) | (97,336) |
| Capital expenditures ⁽¹⁾ | | | | |
| Thailand | 879 | 19,145 | 3,433 | 32,938 |
| Indonesia | 727 | 16,565 | 5,037 | 35,057 |
| Canada | 2,576 | 2,268 | 6,722 | 4,492 |
| Total | 4,182 | 37,978 | 15,192 | 72,487 |

(1) Does not include decommissioning provision and acquisition activities

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

11) COMMITMENTS

As at June 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 | 107 | 115 |
| Total Thailand | | | 117 | 126 |
| Indonesia ⁽²⁾ | | | | |
| Citarum ⁽³⁾⁽⁴⁾ | ▪ See footnote 4 | - | - | - |
| Batu Gajah ⁽³⁾ | ▪ Commitments to date have been completed | - | - | - |
| South CPP ⁽³⁾⁽⁵⁾ | ▪ Commitments to date have been completed | - | - | - |
| East Jabung ⁽⁶⁾ | ▪ Geological studies | November 2014 | 154 | 164 |
| | ▪ Drill one pre-exploration well | November 2014 | 4,958 | 5,293 |
| | ▪ Drill one exploration well | November 2014 | 3,000 | 3,203 |
| Total Indonesia | | | 8,112 | 8,660 |
| Canadian Heavy Oil Sands – Andora Energy Corporation | | | | |
| Sawn Lake, Alberta | ▪ Natural gas pipeline tie-in and tariff | October 2018 | 365 | 390 |
| Total Canada | | | 365 | 390 |
| | | | 8,594 | 9,176 |

(1) Translated at June 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. With respect to the Citarum and Batu Gajah PSCs 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 and Batu Gajah PSCs 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.

(3) 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 PSCs).

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

- (4) *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.*
- (5) *In 2013 the Company decided to relinquish the South CPP PSC. As part of the relinquishment the Company was required to pay the GOI for its unfulfilled firm commitments. In the second quarter of 2014 the Company paid \$2.5 million USD to the GOI for one unfulfilled exploration well.*
- (6) *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 \$7.2 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.



PAN ORIENT ENERGY CORP.

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