



**PAN ORIENT ENERGY CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**



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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, 2012 and December 31, 2011, the consolidated statements of operations and comprehensive income, 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, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards

Chartered Accountants  
Calgary, Canada  
March 27, 2013

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

(\$000s)	December 31, 2012	December 31, 2011
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	133,836	52,407
Accounts receivable	13,088	11,591
	<b>146,924</b>	63,998
<b>Deposits</b>	<b>2,166</b>	2,981
<b>Property, plant and equipment</b> (note 4)	<b>38,819</b>	155,326
<b>Exploration and evaluation</b> (note 5)	<b>194,209</b>	148,971
	<b>382,118</b>	371,276
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	17,993	11,635
Taxes payable (note 10)	14,721	3,712
	<b>32,714</b>	15,347
<b>Deferred tax liabilities</b> (note 10)	<b>19,127</b>	61,056
<b>Employee pension liabilities</b>	<b>49</b>	201
<b>Decommissioning provision</b> (note 8)	<b>2,192</b>	11,759
<b>Long term royalty provision</b> (note 7)	<b>2,197</b>	-
	<b>56,279</b>	88,363
<b>Shareholders' equity</b>		
Share capital (note 9)	117,430	159,356
Contributed surplus	18,460	15,456
Non-controlling interest	17,683	17,932
Accumulated other comprehensive income	(4,297)	887
Retained earnings	176,563	89,282
	<b>325,839</b>	282,913
Related party transactions (note 13)		
Commitments (note 15)		
	<b>382,118</b>	371,276

See accompanying notes to the consolidated financial statements.

*Approved on behalf of the Board of Directors:*

( signed %Michael Hibberd+ )  
 Director

( signed %Paul Wright+ )  
 Director

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

(\$000s, except per share amounts)	Year Ended December 31	
	2012	2011
<b>Revenue</b>		
Oil	55,162	72,576
Royalties	(2,783)	(3,847)
Interest	909	451
	<b>53,288</b>	69,180
<b>Expenses</b>		
Depletion and depreciation	12,999	10,982
Production and operating	6,994	9,748
General and administrative	5,890	5,780
Stock-based compensation	2,517	2,528
Foreign exchange loss	1,413	238
Transportation	931	1,683
Foreign new venture expenditures	55	242
Gain on sale of Thailand interests (note 6)	(94,438)	-
	<b>(63,639)</b>	31,201
<b>Income before taxes and non-controlling interest</b>	<b>116,927</b>	37,979
<b>Taxes</b> (note 10)		
Special remuneratory benefit	-	-
Current income tax expense	18,126	6,050
Deferred income tax expense	12,552	8,233
	<b>30,678</b>	14,283
<b>Net income</b>	<b>86,249</b>	23,696
Foreign exchange loss on translation of foreign operations	(2,329)	(2,028)
<b>Comprehensive income</b>	<b>83,920</b>	21,668
<b>Net income attributable to:</b>		
Common shareholders	86,642	23,991
Non-controlling interest	(393)	(295)
<b>Net income</b>	<b>86,249</b>	23,696
<b>Comprehensive income attributable to:</b>		
Common shareholders	84,313	21,963
Non-controlling interest	(393)	(295)
<b>Comprehensive income</b>	<b>83,920</b>	21,668
<b>Net income per share attributable to common shareholders</b> (note 9)		
Basic	\$ 1.53	\$ 0.43
Diluted	\$ 1.53	\$ 0.43

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, 2010	110,576	13,569	18,227	2,915	65,291	210,578
Net income (loss)	-	-	(295)	-	23,991	23,696
Pan Orient stock-based compensation expense	-	2,216	-	-	-	2,216
Pan Orient capitalized stock-based compensation	-	141	-	-	-	141
Andora stock-based compensation expense	-	312	-	-	-	312
Andora capitalized stock-based compensation	-	38	-	-	-	38
Shares issued under private placement	49,500	-	-	-	-	49,500
Shares issued for Indonesia acquisition	344	-	-	-	-	344
Share issue costs	(2,970)	-	-	-	-	(2,970)
Options exercised	1,086	-	-	-	-	1,086
Transfer from contributed surplus	820	(820)	-	-	-	-
Other comprehensive loss	-	-	-	(2,028)	-	(2,028)
<b>Balance as at December 31, 2011</b>	<b>159,356</b>	<b>15,456</b>	<b>17,932</b>	<b>887</b>	<b>89,282</b>	<b>282,913</b>
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
Pan Orient stock-based compensation expense	-	1,662	-	-	-	1,662
Pan Orient capitalized stock-based compensation	-	199	-	-	-	199
Andora stock-based compensation expense	-	855	-	-	-	855
Andora capitalized stock-based compensation	-	349	-	-	-	349
Options exercised	119	-	-	-	-	119
Transfer from contributed surplus	61	(61)	-	-	-	-
Special distribution (note 9)	(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)
<b>Balance as at December 31, 2012</b>	<b>117,430</b>	<b>18,460</b>	<b>17,683</b>	<b>(4,297)</b>	<b>176,563</b>	<b>325,839</b>

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)	Year Ended	
	2012	2011
<b>Cash Provided From (Used in)</b>		
<b>Operating Activities</b>		
Net income	86,249	23,696
Items not affecting cash		
Taxes	30,678	14,283
Depletion and depreciation	12,999	10,982
Stock-based compensation	2,517	2,528
Accretion	167	372
Non-cash foreign venture expenditures	55	59
Gain on sale of Thailand interests (note 6)	(94,438)	-
	38,227	51,920
Taxes paid	(3,754)	(14,397)
Changes in non-cash working capital	(150)	2,268
	34,323	39,791
<b>Investing Activities</b>		
Petroleum and natural gas properties	(78,011)	(74,086)
Dispositions	161,814	3,499
Deposits	815	1,663
Indonesia acquisition	-	(1,417)
Change in non-cash working capital	5,398	(75)
	90,016	(70,416)
<b>Financing Activities</b>		
Issue of common shares	119	50,586
Subsidiary issuance of common shares, net of issue costs	183	-
Special distribution (note 9)	(42,540)	-
Share issue costs	-	(2,970)
	(42,238)	47,616
<b>Change in cash and cash equivalents</b>	<b>82,101</b>	<b>16,991</b>
<b>Effect of foreign exchange on cash balances</b>	<b>(672)</b>	<b>(1,645)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>52,407</b>	<b>37,061</b>
<b>Cash and cash equivalents, end of year</b>	<b>133,836</b>	<b>52,407</b>

See accompanying notes to the consolidated financial statements.

## **Pan Orient Energy Corp.**

### **Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

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

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#### **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 . 3<sup>rd</sup> 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 interests in a subsidiary with 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 March 27, 2013.

##### *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 the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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 subsidiaries are wholly owned except for Andora Energy Corporation

## Pan Orient Energy Corp.

### Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(Expressed in Canadian dollars, unless otherwise noted)

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(%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.



**Pan Orient Energy Corp.**

**Notes to Consolidated Financial Statements**

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

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*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

## **Pan Orient Energy Corp.**

### **Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

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

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assets is reviewed at the end of each reporting period and reduced to the extent 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, 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.

**Pan Orient Energy Corp.**

**Notes to Consolidated Financial Statements**

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

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

**(m) New Standards and Interpretations Not Yet Adopted**

Standards issued but not yet effective up to the date of issuance of the company's financial statements are listed below. This listing is of the standards and interpretations issued, which the company reasonably expects to be applicable at a future date.

*IFRS 9 Financial Instruments: Classification and measurement*

IFRS 9, as issued, reflects the first phase of the International Accounting Standards Board's ("IASB") work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the company's financial assets.

*IFRS 10 Consolidated Financial Statements*

IFRS 10 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 Consolidation - Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. The standard is effective for annual periods beginning on or after January 1, 2013.

*IFRS 11 Joint Arrangements*

IFRS 11 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 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. The standard is effective for annual periods beginning on or after January 1, 2013.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. This standard is effective for annual period beginning on or after January 1, 2013.

*IFRS 13 Fair Value Measurements*

IFRS 13 defines fair value, sets out in 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 standard is effective for annual periods beginning on or after January 1, 2013.

The preliminary analysis of the above standards indicate that the above standards will not have a material effect on the amounts recorded in the financial statements.

**Pan Orient Energy Corp.**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

(Expressed in Canadian dollars, unless otherwise noted)

**4) PROPERTY, PLANT AND EQUIPMENT**

(\$000s)	Corporate Assets	Thailand Concessions	Indonesia	Total
<b>Cost</b>				
At December 31, 2010	414	126,797	-	127,211
Additions	93	47,987	-	48,080
Foreign currency translation	-	(4,275)	-	(4,275)
Transfers from exploration and evaluation	-	224	-	224
Changes in decommissioning provision	-	3,872	-	3,872
At December 31, 2011	507	174,605	-	175,112
Additions	830	27,240	88	28,158
Dispositions	-	(151,444)	-	(151,444)
Foreign currency translation	-	1,256	-	1,256
Transfers from exploration and evaluation	-	89	-	89
Changes in decommissioning provision	-	879	-	879
At December 31, 2012	1,337	52,625	88	54,050
<b>Accumulated depletion and depreciation</b>				
At December 31, 2010	(158)	(8,666)	-	(8,824)
Charge for the year	(138)	(10,824)	-	(10,962)
At December 31, 2011	(296)	(19,490)	-	(19,786)
Dispositions	-	17,554	-	17,554
Charge for the year	(142)	(12,829)	(28)	(12,999)
At December 31, 2012	(438)	(14,765)	(28)	(15,231)
<b>Net book value</b>				
At December 31, 2011	211	155,115	-	155,326
At December 31, 2012	899	37,860	60	38,819

General and administrative costs of \$0.4 million (2011 - \$0.5 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 value of E&E assets as at December 31, 2012 and 2011 is set out below.

(\$000s)	Canada	Thailand	Indonesia	Total
At December 31, 2010	58,328	12,031	52,108	122,467
Additions	3,655	312	23,960	27,927
Disposition	(3,499)	-	-	(3,499)
Changes in decommissioning provision	-	-	125	125
Foreign currency translation	-	389	1,786	2,175
Transfers to property, plant and equipment	-	(224)	-	(224)
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
Foreign currency translation	-	181	(2,348)	(2,167)
Transfers to property, plant and equipment	-	(89)	-	(89)
At December 31, 2012	59,366	13,453	121,390	194,209

General and administrative costs totaling \$4.0 million (2011 - \$2.7 million) and stock-based compensation totaling \$0.5 million (2011 - \$0.2 million) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

**Pan Orient Energy Corp.****Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

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

Recoverability of the Canadian and Indonesian 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.

The carrying value of the Company's unproved Thai, Canadian and Indonesian properties are expected to be recoverable and as such no write-down has been recorded.

**6) DISPOSITION 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 is held in escrow to support any warranty claims until December 15, 2013 and has been classified as a current receivable.

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

(\$000s)	
Proceeds from disposition	185,273
Transaction costs	(11,265)
Net proceeds	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 on disposition, before tax	94,438

**7) INDONESIA ACQUISITION AND DISPOSITION ACTIVITIES***Acquisition of 20% interest in the Citarum PSC*

In October 2012 the Company entered into an agreement to purchase a 20% participating interest from its partner in the Citarum Production Sharing Contract (PSC) for consideration of: 1) the responsibility of all of the partner's work program obligations in the PSC effective from July 13, 2012, and 2) the payment of a future royalty of \$10 million USD on the first of any potential future hydrocarbon discovery made within the Citarum PSC and an additional \$6 million USD on the second of any future hydrocarbon discovery. The Company's interest in the Citarum PSC now stands at 97%.

Total consideration of the transaction was as follows:

(\$000s)	
Liabilities assumed	3,552
Long term accrued provision for future royalties	2,177
Total cost of interest acquired	5,729

The Company has provided a provision for future royalty payments. The provision is based on management's best estimate of future cash flows discounted at the risk-free interest rate in the jurisdiction in which the expenditure is expected to be incurred, which was 1.25%. The Company also acquired the Partner's future work program obligations relating to the Citarum PSC (see note 15).

*Disposition of 20% interest in the Batu Gajah and South CPP PSCs*

In October 2012 the Company entered into access agreements with the surface rights holder of lands covering the Batu Gajah and South CPP PSCs. In consideration for unlimited access to an extensive road network and surface lands covering the Batu Gajah and South CPP PSCs, the Company will hold in trust a 20% carried interest in both the South CPP and Batu Gajah PSC's for the surface rights holder. The Company's interest in the Batu Gajah and South CPP PSCs now stands at 77%.

**Pan Orient Energy Corp.**  
**Notes to Consolidated Financial Statements**  
For the years ended December 31, 2012 and 2011  
*(Expressed in Canadian dollars, unless otherwise noted)*

**8) DECOMMISSIONING PROVISION**

(\$000s)	Year Ended December 31	
	2012	2011
Decommissioning provision, beginning of year	11,759	7,390
Obligations incurred	633	1,625
Revisions to obligations	322	2,372
Disposition of Thai interests	(10,763)	-
Foreign currency translation	74	-
Accretion	167	372
Decommissioning provision, end of year	2,192	11,759

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 \$2.7 million (2011 - \$15.0 million). Payments to settle this provision will be made over the operating lives of the underlying assets, estimated to last to between 2013 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, 2012 (2011 - 3%).

**9) 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, 2010	48,740,866	\$ 110,576
Issued under private placement, net of share issue costs	7,557,264	46,530
Indonesia acquisition	50,677	344
Exercise of stock options	336,500	1,086
Transfer from contributed surplus on exercise of stock options	-	820
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 <sup>(1)</sup>	-	(42,540)
Balance as at December 31, 2012	56,720,307	\$ 117,430

(1) Effective September 6, 2012 the Company underwent a capital reorganization resulting in a \$0.75 per common share return of capital distribution (the special distribution). The distribution has been shown as a reduction to share capital.

**Pan Orient Energy Corp.**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

(Expressed in Canadian dollars, unless otherwise noted)

**c) Options to Purchase Common Shares**

	Number of options	Weighted average exercise price (\$)
Balance as at December 31, 2010	4,453,000	6.73
Exercised	(336,500)	3.23
Expired	(300,000)	3.90
Balance as at December 31, 2011	3,816,500	7.26
Granted	2,040,000	2.80
Exercised	(35,000)	3.41
Forfeited	(166,667)	3.51
Cancelled	(116,666)	5.55
Expired	(550,000)	11.00
Balance as at December 31, 2012 <sup>(1)</sup>	4,988,167	4.63

(1) The special distribution to shareholders on September 6, 2012 resulted in a \$0.75 adjustment to reduce the exercise price for the 3,881,500 stock options outstanding at that time in accordance with the Stock Option Plan. The weighted average exercise price includes this adjustment.

Options Outstanding December 31, 2012				Options Exercisable December 31, 2012		
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)
2.60 . 4.00	2,286,667	2.74	4.10	1,043,338	2.77	3.42
4.01 . 6.00	350,000	5.06	1.65	337,500	5.03	1.61
6.01 . 8.00	2,351,500	6.40	1.32	2,341,500	6.40	1.31
2.60 . 8.00	4,998,167	4.63	2.62	3,722,338	5.26	1.93

**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, 2012 and 2011 are as follows:

	Year Ended December 31	
	2012	2011
Risk free interest rate (%)	1	-
Expected lives (years)	5	-
Expected volatility (%)	70	-
Dividend per share (%)	-	-
Forfeiture rate (%)	10	-
Weighted average fair value	\$ 1.61	\$ -

The Company did not grant any stock options during the year ended December 31, 2011.



**Pan Orient Energy Corp.**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

(Expressed in Canadian dollars, unless otherwise noted)

**e) Andora Energy Corporation**

**i) Issued and Outstanding Class A Common Shares**

Andora had 100.0 million (December 31, 2011 . 57.3 million) common shares issued and outstanding as at December 31, 2012.

During the year the Company entered into a standby commitment agreement dated July 17, 2012 with respect to a rights offering by Andora. One right was issued for each outstanding Andora common share and 1.4 rights plus \$0.60 entitled the holder to subscribe for one Andora share. Pan Orient agreed to exercise all rights issued to it, and to acquire all Andora shares issuable pursuant to rights not exercised by other Andora shareholders, for an aggregate subscription price (when combined with the exercise of rights issued to Pan Orient) of up to \$25 million. The rights expired on August 9, 2012. By acquiring Andora shares through the exercise of rights issued to it and satisfaction of its standby commitment, the Company purchased an additional 41.2 million Andora shares for \$24.7 million, thereby increasing its ownership of Andora to 71.8% (December 31, 2011 . 53.4%).

**ii) Options to Purchase Common Shares of Andora**

	December 31, 2012		December 31, 2011	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	5,775,000	\$ 0.72	5,775,000	\$ 0.72
Granted	11,839,827	0.60	-	-
Cancelled	(7,614,827)	0.69	-	-
Balance, end of year	10,000,000	\$ 0.60	5,775,000	\$ 0.72

All of Andora's options outstanding at the beginning of the year were cancelled and replaced by a grant of 10,000,000 new options. One third of the new options vested at the grant date and the remaining options vest evenly over a two year period.

The following stock options of Andora were outstanding and exercisable at December 31, 2012:

Options Outstanding December 31, 2012				Options Exercisable December 31, 2012			
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	3.66	4,213,217	0.60	3.66	

Weighted average assumptions and resultant fair values used in the Black Scholes calculations for Andora stock options granted during the years ended December 31, 2012 and 2011 are as follows:

	Year Ended December 31	
	2012	2011
Risk free interest rate (%)	1	-
Expected lives (years)	4	-
Expected volatility (%)	60	-
Dividend per share (%)	-	-
Forfeiture rate (%)	6	-
Weighted average fair value (\$)	\$ 0.19	\$ -

Andora did not grant any stock options during the year ended December 31, 2011.



**Pan Orient Energy Corp.****Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

*(Expressed in Canadian dollars, unless otherwise noted)***f) Net Income 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:

	Year Ended December 31	
	2012	2011
Weighted average common shares - basic	56,702,088	55,253,875
Dilutive effect of stock options	16,816	103,055
Weighted average common shares - diluted	<b>56,718,904</b>	55,356,930

Options to purchase 3,131,500 common shares outstanding at December 31, 2012 (December 31, 2011 . 3,351,500) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

**10) TAXES**

The components of the income tax expense are as follows:

(\$000s)	Year Ended December 31	
	2012	2011
Current income tax expense	18,126	6,050
Deferred income tax expense	12,552	8,233
Special remuneratory benefit	-	-
Income tax expense	<b>30,678</b>	14,283

The Company is required to pay both Special Remuneratory Benefit (SRB) and income tax in Thailand. Thai income tax is calculated at 50% of taxable income, computed mainly as cash flow from operations before changes in working capital less capital expenditures and other permitted deductions.

SRB is calculated separately for each of the Company's four 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.

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:

(\$000s)	Year Ended December 31	
	2012	2011
Income before income taxes and non-controlling interest	116,927	37,979
Statutory income tax rate	25%	26.5%
Expected income taxes at statutory rate	29,232	10,064
Increase (decrease) resulting from:		
Non-deductible stock-based compensation	629	670
Non-taxable gain on sale of Thai interests	(4,911)	-
Change in deferred SRB tax rate	982	(5,750)
Income taxes in jurisdictions with different rates	7,555	10,440
Change in recognition of deferred tax asset and other	(2,809)	(1,141)
Income tax expense	<b>30,678</b>	14,283

The statutory rate was 25% in 2012 (2011 . 26.5%). The decrease from 2011 to 2012 was due to a reduction in the 2012 Canadian corporate rate as part of a series of corporate rate reductions enacted by the federal government in 2007.

**Pan Orient Energy Corp.**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

(Expressed in Canadian dollars, unless otherwise noted)

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

(\$000s)	Balance December 31, 2010	Recognized in profit or loss	Recognized in equity	Balance at December 31, 2011
Petroleum and natural gas properties	55,347	21,244	(1,727)	74,864
Non-capital losses	(8,644)	(5,144)	262	(13,526)
Decommissioning provision	(3,526)	(2,255)	143	(5,638)
Special remuneratory benefit	11,106	(5,612)	(138)	5,356
Net deferred tax liability	54,283	8,233	(1,460)	61,056

(\$000s)	Balance 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

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.

A summary of taxes payable for the years ended December 31, 2012 and 2011 is as follows:

(\$000s)	Year Ended December 31	
	2012	2011
Balance, beginning of year	3,712	12,509
SRB expense . current year	-	-
Income tax . current year	18,126	6,050
Prior year SRB paid	-	(6,407)
Prior year income tax paid	(3,754)	(7,990)
Tax liability disposed on sale of Thai interests	(3,711)	-
Foreign exchange	348	(450)
Balance, end of year	14,721	3,712

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

(\$000s)	December 31, 2012	December 31, 2011
Petroleum and natural gas properties	18	-
Non-capital losses	-	8,525
Decommissioning provision	245	142
Share issuance costs	-	2,317
Total allowance taken on deferred tax asset	263	10,984

**Pan Orient Energy Corp.**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

(Expressed in Canadian dollars, unless otherwise noted)

**11) CAPITAL MANAGEMENT**

The Company's capital consists of the following:

(\$000s)	December 31, 2012	December 31, 2011
Working capital and non-current deposit	116,376	51,632
Share capital	117,430	159,356

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 experience any significant restrictions moving cash out of Thailand. During the year the Company paid a return of capital special distribution that was reflected as a decrease in share capital. The Company has not paid or declared any other dividends since the date of incorporation, nor are any currently contemplated. There were no changes to the Company's approach to capital management during the year.

**12) 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.

*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, 2012 or 2011 except for a write-off of \$435,612 in 2011 related to a receivable from former employees for tax liabilities paid on their behalf.

As at December 31, 2012 and 2011 there were no significant amounts past due or impaired.

**Pan Orient Energy Corp.**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

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

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*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 meet 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, 2012 of \$133.8 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, 2012 are accounts payable and accrued liabilities of \$18.0 million which will mature within one year. Taxes payable of \$14.7 million are not considered a financial instrument. However, this amount is significant and Pan Orient is obligated to remit the reported amount by February 28, 2013.

The Company has work commitments in Thailand and Indonesia (see note 15) which are expected to be funded through cash balances and deposits and expected future cash flow from Thailand properties.

*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, 2012 or 2011.

*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 and comprehensive income. A 1% change in the interest rate would impact net income before tax by approximately \$1.3 million (2011 - \$0.5 million) based on the cash balances as at December 31, 2012.

*Foreign Currency Exchange Rate Risk*

Foreign currency exchange rate risk is the risk that future cash flows, net income and comprehensive income 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 and other comprehensive income as a portion of the Company's operations use the U.S. dollar or Thai baht as their functional currency.

**Pan Orient Energy Corp.****Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

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

As at December 31, 2012 and 2011, the following financial instruments were denominated in currencies other than the Canadian dollar:

	December 31, 2012		December 31, 2011	
	Thai baht (000s of Thai baht)	US dollar (\$000s)	Thai baht (000s of Thai baht)	US dollar (\$000s)
Cash and cash equivalents	<b>82,039</b>	<b>8,717</b>	364,777	7,159
Accounts receivable	<b>223,009</b>	<b>4,741</b>	216,213	1,746
Deposits	<b>26,347</b>	<b>2,197</b>	44,000	1,496
Accounts payable	<b>(104,947)</b>	<b>(12,943)</b>	(194,572)	(3,045)
Taxes payable	<b>(73)</b>	-	(113,884)	-
Net exposure in functional currency	<b>226,375</b>	<b>2,712</b>	316,534	7,356
Net exposure in Canadian dollars <sup>(1)</sup> (\$000s)	<b>7,001</b>	<b>2,694</b>	10,314	7,489

(1) Translated at December 31, 2012 and 2011 exchange rates.

Based on financial instruments held at December 31, 2012 and 2011, fluctuations in the exchange rates as indicated below would have the following estimated effect on net income and other comprehensive income:

(\$000s)	December 31, 2012	December 31, 2011
Effect of 1% change in CAD to USD exchange rate:		
Pre-tax net income	<b>(62)</b>	(43)
Other comprehensive income	<b>35</b>	(26)
Effect of 1% change in CAD to baht exchange rate:		
Pre-tax net income	-	-
Other comprehensive income	<b>(70)</b>	104

The Company did not have any forward exchange contracts in place as at or during the year ended December 31, 2012 or 2011.

**Pan Orient Energy Corp.****Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

*(Expressed in Canadian dollars, unless otherwise noted)***13) RELATED PARTY TRANSACTIONS**

In 2011 Pan Orient remitted to the Canada Revenue Agency \$74,588 on behalf of the President and Chief Executive Officer of the Company. This amount represented the required tax remittance on the benefit related to the exercise of 90,000 stock options of the Company by the CEO. Pursuant to the agreement between the Company and the CEO, the Company was reimbursed for the amount remitted plus accrued interest, at the HSBC Bank Canada reference rate plus 1%. During September 2012 the loan was repaid in full plus \$4,578 of interest.

*Key management compensation*

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

(\$000s)	Year Ended December 31	
	2012	2011
Short-term benefits <sup>(1)(2)</sup>	3,182	2,979
Stock-based compensation <sup>(2)</sup>	2,743	2,366
Total	5,925	5,345

(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:

(\$000s)	Year Ended December 31	
	2012	2011
Operating	3,509	4,641
General and administrative	1,149	3,726
Stock-based compensation	2,517	2,528
Total employee compensation costs	7,175	10,895

**Pan Orient Energy Corp.****Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

*(Expressed in Canadian dollars, unless otherwise noted)***14) 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, 2012 and 2011:

(\$000s)	Year Ended December 31	
	2012	2011
Petroleum revenue		
Thailand	55,162	72,576
Indonesia	-	-
Canada	-	-
<b>Total</b>	<b>55,162</b>	<b>72,576</b>
Current income tax expense <sup>(1)</sup>		
Thailand	3,408	6,050
Indonesia	-	-
Canada	14,718	-
<b>Total</b>	<b>18,126</b>	<b>6,050</b>
Depletion and depreciation		
Thailand	12,829	10,827
Indonesia	29	17
Canada	141	138
<b>Total</b>	<b>12,999</b>	<b>10,982</b>
Net income (loss) attributable to common shareholders		
Thailand	13,068	27,224
Indonesia	(593)	(138)
Canada	74,167	(3,095)
<b>Total</b>	<b>86,642</b>	<b>23,991</b>
Capital expenditures <sup>(2)</sup>		
Thailand	37,407	48,299
Indonesia	40,029	22,219
Canada	575	378
<b>Total</b>	<b>78,011</b>	<b>70,896</b>

(1) *Includes SRB and income tax.*

(2) *Does not include decommissioning provision, acquisition activities, non-cash expenditures, cash and non-cash dispositions.*

**Pan Orient Energy Corp.**

**Notes to Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

(Expressed in Canadian dollars, unless otherwise noted)

**15) COMMITMENTS**

As at December 31, 2012 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 (\$000s)	CAD <sup>(1)</sup> (\$000s)
<b>Thailand</b>				
L 53/48	▪ Study and training fund	January 2013	47	47
	▪ Drill one exploration well	January 2014	500	499
	▪ Drill one exploration well	January 2015	500	499
	▪ 60 km 3D seismic	January 2015	1,000	999
	▪ Drill one exploration well	January 2016	500	499
	▪ Geological studies	January 2016	10	10
	▪ Study and training fund	January 2016	90	90
L45/50	▪ 50 km 3D seismic (100%)	April 2014	2,681	2,678
	▪ Drill two exploration well (20%)	April 2014	260	260
	▪ Geological studies (20%)	April 2014	50	50
<b>Total Thailand</b>			<b>5,638</b>	<b>5,631</b>
<b>Indonesia <sup>(2)</sup></b>				
Citarum	▪ Drill two exploration wells	October 2013	11,424	11,366
Batu Gajah	▪ 400 km <sup>2</sup> 3D seismic and geological studies	January 2013	13,715	13,645
	▪ Drill two exploration wells	January 2014	5,374	5,346
South CPP	▪ 200 km 2D seismic and geological studies	November 2013	1,693	1,685
	▪ Drill one exploration well	November 2013	2,500	2,487
East Jabung	▪ Seismic processing and geological studies	November 2013	43	43
	▪ Drill one pre-exploration well	November 2013	5,219	5,193
	▪ 250 km <sup>2</sup> 2D seismic and geological studies	November 2013	1,550	1,542
	▪ Geological studies	November 2014	75	75
	▪ Drill one exploration well	November 2014	3,000	2,985
<b>Total Indonesia</b>			<b>44,593</b>	<b>44,367</b>
			<b>50,231</b>	<b>49,998</b>

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

(2) 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 Consolidated Financial Statements**

For the years ended December 31, 2012 and 2011

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

Indonesia financial commitments as provided above represent the work program required under the initial 3-year exploration period of the PSC. With respect to Citarum, Batu Gajah and South CPP, extension of this initial exploration period has been successfully negotiated with the Government of Indonesia (GOI) to the dates indicated above. If Pan Orient exercises its options to continue beyond the exploration period, additional commitments will be determined on a year-by-year basis through submission of a work program and approval from the GOI.

Although extension of the exploration period 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 at the discretion of the operator. 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 commitments may also result in penalty payment equal to the unspent commitments and/or forfeiture of the PSC.

The expenditures as provided in the table above represent management's estimates of the minimum amounts to fulfill the work program requirements in Thailand and Indonesia. 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)				
<b>Year</b>	<b>Thailand</b>	<b>Indonesia</b>	<b>Canada</b>	<b>Total</b>
2013	117	277	172	566
2014	60	-	-	60
2015	30	-	-	30
2016	-	-	-	-
2017	-	-	-	-
<b>Total</b>	<b>207</b>	<b>277</b>	<b>172</b>	<b>656</b>



**PAN ORIENT ENERGY CORP.**

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