

Pan Orient Energy Corp.: 2014 Second Quarter Financial & Operating Results

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CALGARY, ALBERTA--(Marketwired - Aug 21, 2014) - [Pan Orient Energy Corp.](#) ("Pan Orient") (TSX VENTURE:POE) is providing its 2014 second quarter consolidated financial and operating results. *Please note that all amounts are in Canadian dollars unless otherwise stated and BOPD refers to barrels of oil per day net to Pan Orient.*

The Corporation is today filing its unaudited consolidated financial statements as at and for the six months ended June 30, 2014 and related management's discussion and analysis with Canadian securities regulatory authorities. Copies of these documents may be obtained online at www.sedar.com or the Corporation's website, www.panorient.ca.

Highlights

- Government of Thailand environmental approval received on August 8th for six drilling locations in Concession L53, including the L53A-North prospect.
- Purchased high quality 3D seismic over the Selong-Akatara oil and gas discoveries made by another operator directly adjacent to our acreage at the Batu Gajah Production Sharing Contract ("PSC") continues to indicate the likelihood of an extension of these structures into Pan Orient's acreage.
- Significant progress made in the farm-out efforts of the East Jabung and Batu Gajah PSCs onshore Sumatra, Indonesia.
- Steam injection commenced at the Sawn Lake, Canada, steam assisted gravity drainage ("SAGD") demonstration project on May 21, 2014 and first bitumen production is anticipated in September 2014.

2014 SECOND QUARTER OPERATING RESULTS

- For the second quarter of 2014, the Company recorded total corporate funds flow from operations of \$4.6 million (\$0.08 per share) and a net loss attributable to common shareholders of \$0.1 million (\$0.01 loss per share). For the first six months of 2014, corporate funds flow from operations was \$9.0 million (\$0.16 per share) and a net loss attributable to common shareholders of \$0.3 million (\$0.01 loss per share).
- At June 30, 2014 Pan Orient had \$43.8 million of working capital and non-current deposits, and no long-term debt. In addition, Pan Orient had \$7.5 million of equipment inventory to be utilized for future Thailand and Indonesia operations which is included in exploration and evaluation assets in the consolidated statement of financial position. Working capital and non-current deposits were comprised of \$27.2 million cash, \$2.5 million of non-current deposits, \$12.9 million of Canadian taxes receivable and other receivables of \$7.0 million and less payables of \$5.8 million.
- Capital expenditures were \$4.2 million for the second quarter of 2014 and included \$2.6 million in Canada associated with the Sawn Lake SAGD demonstration project of Andora Energy Corporation ("Andora"), which is owned 71.8% by Pan Orient and consolidated with Pan Orient for reporting purposes, \$0.9 million in Thailand and \$0.7 million in Indonesia. During the first six months of 2014, capital expenditures were \$15.2 million with expenditures of \$6.7 million in Canada associated with the Sawn Lake SAGD demonstration project, \$3.4 million in Thailand for drilling the L53A Central well, workovers, other exploration costs and inventory, and \$5.0 million in Indonesia for completion of seismic programs and other exploration costs.
- Capital expenditures for the first half of 2014 were funded by \$9.0 million of funds flow from operations, \$2.7 million from a joint venture partner repurchasing a gross overriding royalty interest at Sawn Lake as part of an overall agreement entered into in 2013 for the advancement of the Sawn Lake demonstration project and the remaining \$3.5 million through existing working capital.
- At June 30, 2014 Pan Orient had outstanding capital commitments of \$0.1 million in Thailand associated with Concession L53, \$8.7 million in Indonesia associated with the East Jabung PSC, and \$0.4 million in Canada for natural gas pipeline tie-in and tariff charges associated with the Sawn Lake SAGD demonstration project of Andora.

- Thailand

- In the second quarter of 2014 Concession L53 average oil sales increased 8% to 769 BOPD and generated \$5.4 million in after tax funds flow from operations, or \$77.45 per barrel. This compares with oil sales in the first quarter of 2014 of 712 BOPD and \$5.0 million in after tax funds flow from operations, or \$77.69 per barrel. Oil sales increased 8% during the second quarter of 2014 primarily due to flush production from successfully perforating a new zone at the L53-D2ST3 well in May 2014.
- On a per barrel basis, after tax funds flow from operations of \$77.45 in the second quarter of 2014 was consistent with the first quarter of 2014 and resulted from oil sales of \$104.05, transportation expenses of \$1.66, operating expenses of \$12.63, general and administrative expenses of \$7.28 and a royalty to the Thailand government of \$5.20, and there was interest income equivalent to \$0.17. Oil revenue during the first half 2014 was allocated 21% to expenses for transportation, operating, and general & administrative, 5% to the government of Thailand for royalties, and 74% to Pan Orient.
- No wells were drilled in the second quarter of 2014 as the Company waited for EIA approval for several locations, including the L53A-North prospect in the northeastern portion of Concession L53 which is part of the planned three well drilling program for the remainder of 2014. The L53-A Central exploration well drilled during the first quarter of 2014 failed to encounter commercial hydrocarbons and was abandoned.
- Capital expenditures during the second quarter of 2014 at Concession L53 were \$0.9 million in Thailand primarily for workovers, final drilling costs for the L53-A Central exploration well and equipment inventory. For the first half of 2014 capital expenditures at Concession L53 have been \$3.4 million for drilling the L53A Central well, workovers, equipment inventory and other exploration costs and inventory.
- The Company elected not to continue exploration activities at Concession L45 and the concession expired on April 27, 2014.

- Indonesia

- Capital expenditures in Indonesia were \$5.0 million during the first half of 2014, with \$4.3 million in the first quarter and \$0.7 million in the second quarter. On a year to date basis, there have been capital expenditures of \$4.5 million at the East Jabung PSC related primarily to completing the 440 kilometer 2D seismic program, \$0.4 million at the Batu Gajah PSC related to capitalized general and administrative expenses, and \$0.1 million for equipment inventory.

- Canada

- Capital expenditures for the Sawn Lake SAGD demonstration project were \$6.7 million during the first half of 2014, with \$4.1 million in the first quarter and \$2.6 million in the second quarter. These expenditures related to construction of the SAGD facility for steam generation, water handling and oil treating, and for final installation of the water source and disposal facilities.

OUTLOOK

- Thailand

- On August 8, 2014 Environmental Impact Assessment ("EIA") approval was received for six exploration drilling locations with four individual well cellars each. Production EIA approval was also part of all six location applications, allowing for accelerated long term production in the event of success.
- The L53A-North location was one of the six locations approved with well construction to commence in approximately seven days and be completed in approximately seven weeks allowing for rain delays during the current early monsoon period. A number of steps have been taken to mitigate the impact of the monsoon rains on construction including covered storage of earth fill and construction of a berm around the well pad perimeter.
- The Company currently plans to drill one appraisal well at each of the L53-D East field and the L53-B prospect prior to drilling of the L53A-North exploration well. The L53-D East location will be targeting an undrilled fault compartment and the L53-B location will be targeting numerous sands 20 to 25 meters up structure from the original L53-B well that was drilled in 2011 and produced small quantities of oil from two sandstone intervals prior to being shut-in. No reserves were attributed to the targets in either of these appraisal wells in the 2013 year end reserves report.
- Drilling of the first well of the three well drilling program is anticipated to commence at the end of September with each well taking 10 to 14 days to completion.
- Production is currently 583 BOPD and averaged 657 BOPD in July and 610 BOPD over the past 30 days. Oil production levels have been impacted by the rescheduling of the drilling program due to the delay in receiving EIA approvals.

- Indonesia
 - East Jabung PSC Onshore Sumatra (Pan Orient operator and 100% ownership)
 - As disclosed on May 28th, Pan Orient has received a number of proposals from potential farminees with regard to obtain of an up to 50% working interest in East Jabung PSC. The Company has accepted a non-binding proposal and is currently facilitating legal and financial due diligence on an exclusive basis while working towards binding farm-in and joint operating agreements. These agreements, if concluded successfully, are anticipated to be completed in September.
 - Batu Gajah PSC Onshore Sumatra (Pan Orient operator and 77% ownership)
 - The Company is currently in negotiations on a non-exclusive basis regarding the potential farm-out of an up to 40% working interest in the Batu Gajah PSC.
 - In the past three weeks approximately 120 square kilometers of 3D seismic data covering a large portion of the Akatara-Selong oil and gas discovery area made by another operator directly adjacent to our acreage at the Batu Gajah PSC has been purchased after being only recently made available by the Indonesian Government technical data administrator. The preliminary results of the interpretation of this high quality 3D seismic data continues to indicate the Company's view that the Selong oil discovery extends into Pan Orient's adjacent Batu Gajah PSC acreage. On the basis of this newly available seismic data, the Company has selected three drilling locations for which Forestry Ministry approval will be sought. It is estimated this approval process will take approximately four months and could be followed by drilling in mid-2015.
 - Citarum PSC Onshore Java (Pan Orient operator and 97% ownership)
 - Pan Orient continues to operate a data room for potential farmin parties and is seeking a 50% partner. This process continues to proceed.
- Canada - Sawn Lake (operated by Andora, in which Pan Orient has a 71.8% ownership interest)
 - Andora has a 50% working interest in the Sawn Lake SAGD demonstration project, and is the operator. The first step towards determining the commercial viability of the SAGD recovery process at Sawn Lake is for the demonstration project to provide an indication of the productivity of the reservoir and the amount of steam injection required to produce the bitumen, which are key components in assessing the potential for SAGD development at Sawn Lake.
 - For Phase 1 of the SAGD demonstration project, one SAGD well pair was drilled in the fourth quarter of 2013 to a depth of 650 meters and has a horizontal length of 780 meters. Construction of the SAGD facility for steam generation, water handling and oil treating was completed in 2014.
 - Steam injection at the Sawn Lake SAGD demonstration project commenced on May 21, 2014. Steam has been injected into both the SAGD injector well and the SAGD production well for approximately three months. These wells are being monitored to determine the timing for recompleting the SAGD production well for production. It is expected that bitumen production will commence in early September 2014.

Pan Orient is a Calgary, Alberta based oil and gas exploration and production company with operations currently located onshore Thailand, Indonesia and in Western Canada.

This news release contains forward-looking information. Forward-looking information is generally identifiable by the terminology used, such as "expect", "believe", "estimate", "should", "anticipate" and "potential" or other similar wording. Forward-looking information in this news release includes, but is not limited to, references to: well drilling programs and drilling plans, estimates of reserves and potentially recoverable resources, information on future production and project start-ups and the status and likelihood of farmout negotiations and agreements. By their very nature, the forward-looking statements contained in this news release require Pan Orient and its management to make assumptions that may not materialize or that may not be accurate. The forward-looking information contained in this news release is subject to known and unknown risks and uncertainties and other factors, which could cause actual results, expectations, achievements or performance to differ materially, including without limitation: imprecision of reserve estimates and estimates of recoverable quantities of oil, changes in project schedules, operating and reservoir performance, the effects of weather and climate change, the results of exploration and development drilling and related activities, demand for oil and gas, commercial negotiations, other technical and economic factors or revisions and other factors, many of which are beyond the control of Pan Orient. Although Pan Orient believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurances that the expectations of any forward-looking statements will prove to be correct.

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Average oil sales price, before transportation (CDN\$/bbl)	\$ 104.05	\$ 97.47	\$ 104.63	\$ 99.11	6 %
Reference Price (volume weighted) and differential					
Crude oil (Brent \$US/bbl)	\$ 109.79	\$ 102.59	\$ 108.96	\$ 112.17	-3 %
Exchange Rate \$US/\$Cdn	1.10	1.01	1.11	1.02	9 %
Crude oil (Brent \$Cdn/bbl)	\$ 120.92	\$ 103.13	\$ 120.93	\$ 114.23	6 %
Sale price / Brent reference price	86 %	95 %	87 %	87 %	-1 %
Funds flow from operations (Note 1)					
Crude oil sales	7,285	8,475	14,035	15,919	-12 %
Government royalty	(364)	(425)	(693)	(784)	-12 %
Transportation expense	(116)	(141)	(220)	(252)	-13 %
Operating expense	(884)	(911)	(1,922)	(1,663)	16 %
Field netback	5,921	6,998	11,200	13,220	-15 %
General and administrative expense (Note 4)	(510)	(388)	(809)	(752)	8 %
Interest income	12	22	14	25	-44 %
Current income tax	-	-	(1)	(1)	0 %
Funds flow from operations	5,423	6,632	10,404	12,492	-17 %
Funds flow from operations / barrel (CDN\$/bbl) (Note 1)					
Crude oil sales	\$ 104.05	\$ 97.47	\$ 104.63	\$ 99.11	6 %
Government royalty	(5.20)	(4.89)	(5.17)	(4.88)	6 %
Transportation expense	(1.66)	(1.62)	(1.64)	(1.57)	4 %
Operating expense	(12.63)	(10.48)	(14.33)	(10.35)	38 %
Field netback	84.56	80.48	83.49	82.31	1 %
General and administrative expense (Note 4)	(7.28)	(4.46)	(6.02)	(4.68)	29 %
Interest Income	0.17	0.25	0.10	0.16	-38 %
Current income tax	-	-	(0.01)	(0.01)	0 %
Thailand - Funds flow from operations	\$ 77.45	\$ 76.27	\$ 77.56	\$ 77.78	0 %
Government royalty as percentage of crude oil sales	5 %	5 %	5 %	5 %	0 %
SRB as percentage of crude oil sales	0 %	0 %	0 %	0 %	0 %
Income tax as percentage of crude oil sales	0 %	0 %	0 %	0 %	0 %
As percentage of crude oil sales					
Expenses - transportation, operating, G&A and other	21 %	17 %	21 %	17 %	26 %
Government royalty, SRB and income tax	5 %	5 %	5 %	5 %	0 %
Funds flow from operations, before interest income	74 %	78 %	74 %	78 %	-5 %
Wells drilled					
Gross	-	6	1	12	-92 %
Net	-	6.0	1.0	12.0	-92 %

Indonesia Operations

General and administrative expense (Note 4)	(255)	(47)	(552)	(122)
Exploration expense (Note 5)	15	-	(294)	-
Realized foreign exchange gain (loss)	26	17	(82)	19
Indonesia - Funds flow used in operations	(214)	(30)	(928)	(103)
Wells drilled				
Gross	-	1	-	3
Net	-	1.0	-	3.0

- Funds flow from operations (cash flow from operating activities prior to changes in non-cash working capital, reclamation costs and excluding the recovery of prior year income taxes) is used by management to analyze operating performance and leverage. Funds flow as presented does not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures of other entities. Funds flow is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS.
- Cost of capital expenditures, excluding decommissioning provision and the impact of changes in foreign exchange rates.
- Joint venture partners in Andora's Sawn Lake SAGD demonstration project repurchased the 3% gross overriding royalty on a portion of the non-owned working interests in 36.5 sections for \$2.7 million.
- General & administrative expenses, excluding non-cash accretion on decommissioning provision and stock-based payments.
- Exploration expense relates to exploration costs associated with the Citarum and South CPP PSCs that are no longer being capitalized.
- Tables may not add due to rounding.

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