

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

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CALGARY, ALBERTA--(Marketwired - Dec 1, 2014) - [Pan Orient Energy Corp.](#) ("Pan Orient") (TSX VENTURE:POE) is providing its 2014 third quarter consolidated financial and operating results. *Please note that all amounts are in Canadian dollars unless otherwise stated, converted using foreign exchange rates at September 30, 2014 where applicable, 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 nine months ended September 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

- Important quarter for the Company with significant advancement of exploration initiatives in all three regions: Thailand, Indonesia and Canada.
- Substantial progress towards the corporate initiative of strengthening the Company's balance sheet and de-risking its portfolio of assets, through partial sale or seeking partners.
- November 5th announcement that Pan Orient has entered into an agreement to sell a 50% interest in the subsidiary holding Thailand Concession L53 for net proceeds of \$46.5 million. A three well drilling program to commence in late January 2015 after closing of the transaction, including the potentially high impact L53-A North Central exploration well.
- November 11th announcement that Pan Orient has entered into an agreement to farmout a 51% interest in the onshore Sumatra, Indonesia East Jabung Production Sharing Contract ("PSC") to a subsidiary of [Talisman Energy Inc.](#) for a \$9.2 million upfront cash payment and funding of the first \$11.4 million spent towards drilling of the potentially high impact Anggun prospect.
- Significant progress made in the farm-out effort of the Citarum PSC onshore Java, Indonesia.
- Bitumen production commenced at the Sawn Lake, Alberta Steam Assisted Gravity Drainage ("SAGD") demonstration project on September 16, 2014. Bitumen sales, on a 100% basis for the producing well, averaged 126, 150, and 221 barrels of bitumen per day during the first, second and partial third thirty day periods since the start-up of SAGD mode production and ending November 24, 2014. Corresponding steam oil ratios were estimated at 8.39, 7.61 and 6.32 respectively. These early stage production numbers compare favorably to an analogous reservoir in a demonstration project operated by another company of similar reservoir type that we are monitoring and using as a basis of comparison.
- Pan Orient has working capital and non-current deposits at September 30, 2014 of \$44.6 million, no debt and the financial base of Pan Orient is being further strengthened through the expected closing of the Thailand transaction and farmout at the East Jabung PSC in Indonesia.

2014 THIRD QUARTER OPERATING RESULTS

- For the third quarter of 2014, the Company recorded total corporate funds flow from operations of \$3.7 million (\$0.06 per share) and a net loss attributable to common shareholders of \$0.4 million (\$0.00 loss per share). For the first nine months of 2014, corporate funds flow from operations was \$12.7 million (\$0.22 per share) and a net loss attributable to common shareholders of \$0.7 million (\$0.01 loss per share).

- Capital expenditures were \$3.2 million for the third quarter of 2014 and included \$1.9 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, \$0.5 million in Thailand and \$0.8 million in Indonesia. During the first nine months of 2014, capital expenditures were \$18.4 million with expenditures of \$8.6 million in Canada associated with the Sawn Lake SAGD demonstration project, \$3.9 million in Thailand for drilling the L53-A Central well pad, workovers, other exploration costs and inventory, and \$5.8 million in Indonesia for completion of seismic programs and other exploration costs.
- Capital expenditures for the first nine months of 2014 were funded by \$12.7 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 \$3.0 million through existing working capital.
- At September 30, 2014 Pan Orient had \$44.6 million of working capital and non-current deposits, and no long-term debt. In addition, Pan Orient had \$8.0 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 \$31.6 million cash, \$1.0 million of non-current deposits, \$12.9 million of Canadian taxes receivable and other receivables of \$4.5 million and less accounts payable of \$5.4 million.
- At September 30, 2014 Pan Orient had outstanding capital commitments of \$0.1 million in Thailand associated with Concession L53, \$8.9 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
 - Concession L53 oil sales averaged 633 BOPD in the third quarter of 2014 and generated \$4.3 million in after tax funds flow from operations, or \$74.07 per barrel. This compares with oil sales in the second quarter of 2014 of 769 BOPD and \$5.4 million in after tax funds flow from operations, or \$77.45 per barrel. Production levels were impacted substantially by the delay of a planned three well program until closing of the Sea Oil Public Company Limited transaction anticipated on January 12, 2015.
 - On a per barrel basis, after tax funds flow from operations of \$74.07 in the third quarter of 2014 resulted from oil sales of \$100.34, transportation expenses of \$1.63, operating expenses of \$13.16, general and administrative expenses of \$6.60, a royalty to the Thailand government of \$4.91, and interest income equivalent to \$0.03. Oil revenue during the quarter and for the first nine months of 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 third quarter of 2014 as the Company waited for Government of Thailand environmental impact assessment approval for several locations, including the L53-A North prospect in the northeastern portion of Concession L53 which is part of the upcoming three well drilling program. This drilling program is now planned for the first quarter of 2015, after the expected closing of the Thailand transaction which was announced on November 5, 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 third quarter of 2014 at Concession L53 were \$0.5 million in Thailand related to workovers, site restoration and abandonment costs for the L53-A Central exploration well and equipment inventory. For the first nine months of 2014 capital expenditures at Concession L53 have been \$3.9 million for the L53-A Central well, workovers, equipment inventory and other exploration costs.

- Indonesia

- Indonesia activity during 2014 has been focused on completion of the seismic programs at East Jabung and Batu Gajah and on negotiating farmout arrangements for exploration drilling at the East Jabung, Batu Gajah and Citarum PSCs.
- Capital expenditures in Indonesia were \$5.8 million during the nine months of 2014, with \$4.3 million in the first quarter, \$0.7 million in the second quarter and \$0.8 million in the third quarter. On a year to date basis, there have been capital expenditures of \$5.0 million at the East Jabung PSC principally related to completing the 440 kilometer 2D seismic program, \$0.7 million at the Batu Gajah PSC associated with completion of the 400 square kilometer 3D seismic program and capitalized general and administrative expenses, and \$0.1 million for equipment inventory.

- Canada

- Andora (in which Pan Orient has a 71.8% ownership interest) 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 commenced May 21, 2014 and bitumen production commenced September 16, 2014.
- The Sawn Lake demonstration project has not yet proven that it is commercially viable and all related costs and revenues are being capitalized as exploration and evaluation assets until commercial viability is achieved.
- Capital expenditures at the Sawn Lake SAGD demonstration project of \$1.9 million during the third quarter of 2014 and \$8.6 million for the first nine months of 2014 relate to completion of construction of the SAGD facility, installation of the water source and disposal facilities, recompletion of the SAGD producing well for production and capitalization of expenses and revenue.

OUTLOOK

- Thailand

- Construction of the high impact L53-A North Central exploration well pad has been completed with drilling expected to commence in February 2015 shortly after the closing of the Sea Oil sale transaction. Upon closing of the Sea Oil sale transaction the Company will commence a first phase three well drilling program that includes the L53-A North Central exploration well and two L53-D appraisal wells. A second phase three to four well drilling program is planned late in the second quarter of 2015 that will include appraisal drilling in the event of success at L53-A North Central or the L53-A North East prospect in addition to appraisal drilling at L53-A and L53-G fields. The exact composition of this second phase program will be dependent upon phase drilling results and partner approval.
- Oil sales averaged 591 BOPD in October and 476 BOPD over the past 30 days. Oil production levels have been substantially impacted by the rescheduling of the drilling program to the first quarter of 2015.

- Indonesia
 - East Jabung PSC Onshore Sumatra (Pan Orient operator and 100% ownership)
 - Activities in the first quarter of 2015 will be focused on the transfer of a 51% interest and operatorship to a subsidiary of [Talisman Energy Inc.](#) and finalizing the various Government of Indonesia approvals required. Drilling of the potentially high impact Anggun prospect is expected to commence in the fourth quarter of 2015 to the second quarter of 2016 depending on the well access route that is secured.
- Canada - Sawn Lake (operated by Andora, in which Pan Orient has a 71.8% ownership interest)
 - The objective of this initial pilot well pair was to establish that the SAGD process works in the Bluesky formation reservoir, and results to date support this. We are now focused on achieving commercial rates and targeting to reach production of between 345 and 370 barrels of bitumen per day, with associated steam oil ratios of between 4.7 and 3.8. These production parameters correspond to the Best and High case estimates used by Sproule Unconventional Limited in the December 31, 2013 NI51-101 compliant Sawn Lake contingent resource report for a well pair drilled in a 15 to 20 meter thick reservoir with no bottom or top water. We expect to achieve these results in early March 2015 when reservoir modelling indicates that the steam chamber will reach the top of the Bluesky formation sandstone reservoir. Maximum production is anticipated to occur in September 2015 corresponding to the end of the first year of production. However, production results to date are of course not necessarily indicative of long-term performance or of ultimate recovery.
 - The Sawn Lake Partners will meet at the beginning of 2015 in order to decide upon an agenda to spend a capital budget of \$12.0 million (Andora share: \$6.0 million). This budget would include the drilling of an additional well pair (approximately \$8.2 million gross) in addition to Phase 2 front end engineering and design, and facility upgrades. Andora's cash position at September 30, 2014 was \$12.1 million, which is more than sufficient to meet the expected capital and operating requirements through 2015.

An updated corporate presentation is available today on the company's website at www.panorient.ca.

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 transactions, 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.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Financial and Operating Summary	Three Months Ended September 30,		Nine Months Ended September 30,		Change
	2014	2013	2014	2013	
<i>(thousands of Canadian dollars except where indicated)</i>					

Exchange Rate \$US/\$Cdn	1.10	1.02	1.11	1.03	8 %
Crude oil (Brent \$Cdn/bbl)	\$ 112.56	\$ 112.09	\$ 118.39	\$ 111.38	6 %
Sale price / Brent reference price	89 %	89 %	87 %	89 %	-2 %
Funds flow from operations (Note 1)					
Crude oil sales	5,840	7,397	19,875	23,316	-15 %
Government royalty	(286)	(368)	(979)	(1,152)	-15 %
Transportation expense	(95)	(119)	(315)	(371)	-15 %
Operating expense	(766)	(1,084)	(2,688)	(2,747)	-2 %
Field netback	4,693	5,826	15,893	19,046	-17 %
General and administrative expense (Note 4)	(384)	(382)	(1,193)	(1,134)	5 %
Interest income	2	2	16	27	-41 %
Current income tax	-	(1)	(1)	(2)	-50 %
Funds flow from operations	4,311	5,445	14,715	17,937	-18 %
Funds flow from operations / barrel (CDN\$/bbl) (Note 1)					
Crude oil sales	\$ 100.34	\$ 99.34	\$ 103.34	\$ 99.19	4 %
Government royalty	(4.91)	(4.94)	(5.09)	(4.90)	4 %
Transportation expense	(1.63)	(1.60)	(1.64)	(1.58)	4 %
Operating expense	(13.16)	(14.56)	(13.98)	(11.69)	20 %
Field netback	80.64	78.24	82.63	81.02	2 %
General and administrative expense (Note 4)	(6.60)	(5.13)	(6.20)	(4.82)	29 %
Interest Income	0.03	0.03	0.08	0.11	-27 %
Current income tax	-	(0.01)	(0.01)	(0.01)	0 %
Thailand - Funds flow from operations	\$ 74.07	\$ 73.13	\$ 76.50	\$ 76.30	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 %	21 %	21 %	18 %	16 %
Government royalty and income tax	5 %	5 %	5 %	5 %	0 %
Funds flow from operations, before interest income	74 %	74 %	74 %	77 %	-4 %
Wells drilled					
Gross	-	1	1	13	-92 %
Net	-	1.0	1.0	13.0	-92 %
Indonesia Operations					
General and administrative expense (Note 4)	(380)	(695)	(932)	(817)	14 %
Exploration expense (Note 5)	(21)	-	(315)	-	100 %
Realized foreign exchange gain (loss)	(16)	95	(98)	114	-186 %
Indonesia - Funds flow used in operations	(417)	(600)	(1,345)	(703)	91 %
Wells drilled					
Gross	-	-	-	3	-100 %
Net	-	-	-	3.0	-100 %

- (1) Funds flow from operations (cash flow from operating activities prior to changes in non-cash working capital, decommissioning expenditures 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.
- (2) Cost of capital expenditures, excluding decommissioning provision and the impact of changes in foreign exchange rates.
- (3) 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.
- (4) General & administrative expenses, excluding non-cash accretion on decommissioning provision and stock-based payments.
- (5) Exploration expense relates to exploration costs associated with the Citarum and South CPP PSCs.
- (6) The Sawn Lake demonstration project in Alberta has not yet proven that it is commercially viable and all related costs and revenues are being capitalized as exploration and evaluation assets until commercial viability is achieved.
- (7) Tables may not add due to rounding.

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