

Panoro Energy

HAUOLO FUELĀΛ

Fourth Quarter Report 2013

February 19, 2014



Contents

Highlights and events.....	3
Operational update.....	4
Financial information	6
Outlook	11
Condensed consolidated financial statements	12
Notes to the condensed consolidated financial statements	16
Other information.....	22

Highlights and events

Panoro Energy ASA and its subsidiaries (“Panoro Energy” or “Panoro” or “the Company”) report EBITDA of USD 14.4 million for the fourth quarter 2013. During the quarter, the Company received USD 7 million from Lekoil for terminating the Aje Sales and Purchase Agreement.

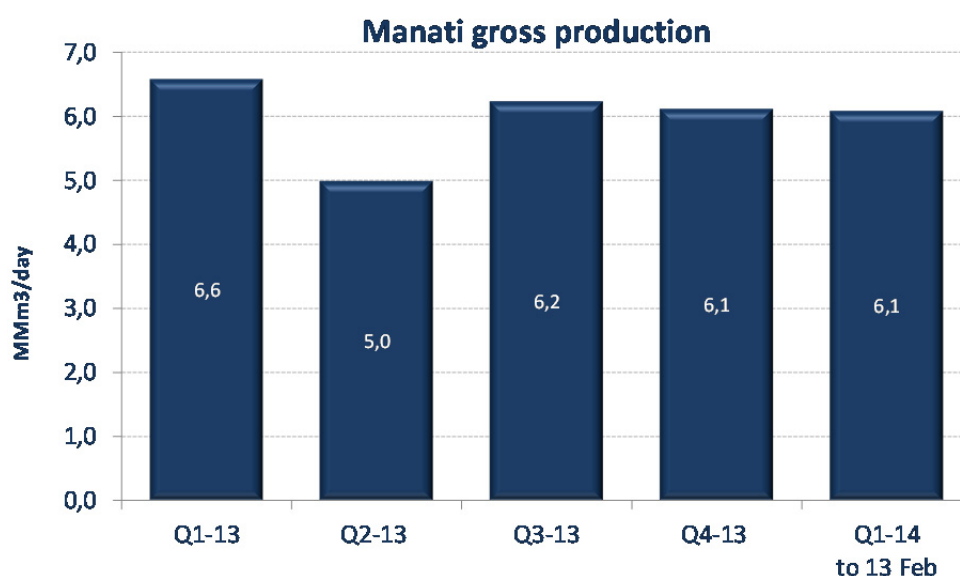
Closing of the divestment processes of its Brazilian subsidiary Rio das Contas (Manati) is pending ANP (Agencia Nacional do Petroleo) approval of replacement of Panoro Energy’s parental guarantee with parental guarantee from GeoPark Limited.

The Company has decided to fully impair the BS-3 assets.

Panoro has initiated a formal sales process of the Company.

Fourth quarter 2013 highlights and subsequent events

- Net gas & condensate sales averaged 3,676 BOE/day in the fourth quarter, versus 3,741 BOE/day in the previous quarter
- EBITDA was USD 14.4 million, up from USD 3.8 million in the previous quarter mainly due to the USD 7 million in extra income over the contemplated Aje transaction and a USD 3.5 million reversal of contingent liabilities related to BS-3 acquisition
- Lekoil terminated the Sales and Purchase Agreement for the OML 113 (Aje) transaction. Panoro received USD 7 million cash deposit related to the transaction
- The Aje joint venture initiated work on the Field Development Plan (FDP) for the initial phase of the development of this Nigerian oil and gas field based on an initial, two well development of the Cenomanian oil reservoirs
- Completed 3D seismic survey offshore Gabon covering the Dussafu license
- Closing of the divestment processes of its Brazilian subsidiary Rio das Contas (Manati) is pending ANP approval of replacement of Panoro Energy’s parental guarantee with parental guarantee from GeoPark Limited
- Full impairment of BS-3 assets of USD 46.2 million after unsuccessful farm-out leading to a decision to withdraw from/relinquish the licenses
- Total number of employees have been reduced from 30 at the end of 2012 to 11 following the completion of the divestment of Rio das Contas
- Panoro has initiated a formal sales process of the Company



Operational update

BRAZIL

Manati field: Petrobras (Operator, 35%), Panoro Energy (10%)

Average gas production from Manati was 6.1 MMm3/day in the fourth quarter (3,847 BOE/day net to Panoro), resulting in sales of 3,676 BOE/day. Production decreased approximately 2% compared to the third quarter 2013 and increased approximately 0.1% compared to the fourth quarter 2012.

The bidding process for the compression facility was completed. The contract award will be made after an internal approval process by the operator. The construction of the compression facilities is expected to start during the first half of 2014 with compressor start up in mid-2015.

On May 15, 2013 Panoro announced the divestment of its Brazilian subsidiary Rio das Contas to GeoPark which includes Panoro's 10% interest in Manati. The closing of the transaction depends on approval by the Brazilian regulatory authority ANP. All other conditions, for the transaction to be closed, are fulfilled. The parties have agreed to extend the long stop date until March 14 as the ANP approval process is taking longer than initially expected. After this new long stop date the parties have a unilateral option to extend the long stop date by a minimum two months or maximum of three months.

BS-3 project: Petrobras (Operator, 35%) Panoro Energy: Cavalo Marinho (50%) and Estrela do Mar (65%)

Working together with partners Brasoil and Petrobras, Panoro continued its efforts to farmout its interests in the Estrela do Mar and Cavalo Marinho fields, in a joint process which also includes the Caravela and Tubarao fields (both 100% Petrobras), while offering operatorship of all of the blocks to the farming in company. Based on interest shown by several companies, the operator submitted a request for a six-month extension to the National Petroleum Agency (ANP) in December. The purpose of the extension is to allow completion of the farmout process, which effectively delayed the ANP's previous request for voluntary relinquishment of the blocks, however the six month extension has not yet been approved by the ANP.

Both physical and virtual data rooms were held during December and continued through early 2014, however none of the companies that initially showed interest and attended data rooms demonstrated commitment through submittal of a letter of intent or an indicative offer. As a result of the lack of interest, a decision was made after the end of the year to discontinue the farmout process and to take the properties off the market, and it is expected that this development will result in block relinquishment during the first quarter of 2014. This outcome is expected since the process will revert to the ANP request for voluntary relinquishment mentioned above. As a consequence of this the Company has decided to fully impair the two remaining BS-3 assets Cavalo Marinho and Estrela do Mar.

GABON

Dussafu Marine: Harvest (Operator, 66.67%), Panoro Energy (33.33%), ex back in right of 10% held by Tullow

Technical studies of the Dussafu discoveries continued through the quarter. The subsurface models and development plans have been further refined and the operator's project economics are indicating a robust development project. The concept is a cluster development of Tortue, Ruche and Walt Whitman tied back to an FPSO. The partners have had meetings with the DGH in Gabon to discuss progressing through the necessary steps leading to possible project sanction. The operator is also working with Gaffney Cline to prepare a Component Person Report in preparation for development sanction.

During the quarter, Panoro completed a 3D seismic acquisition programme covering an area of approximately 1,130 km² in the outboard part of the license. The primary objective of the 3D is to upgrade leads that have previously been identified on 2D seismic data to be drillable prospects. These leads are expected to contain pre-salt Gamba and Dentale sandstones, and have become more attractive following the identification of the high quality oil bearing Dentale reservoirs in the Tortue discovery. The survey also covers the Ruche and Tortue discoveries and the improved 3D data quality should allow for better placement of future development wells once a field development decision is taken. Processed data from the survey is expected to be ready for interpretation in the second half of 2014. The total seismic cost net to Panoro was approximately USD 4 million mainly paid in January 2014.

OML 113 Aje field: YFP (Operator, 60%), Panoro Energy (6.5% participating interest)

On June 18, 2013 Panoro announced that the Company had entered into a Sale and Purchase Agreement (SPA) with the Nigerian company Lekoil 113 Nigeria Limited ("Lekoil") for Panoro's 6.502% participating interest in the OML113 license offshore Nigeria for the consideration of USD 30 million.

On November 19, 2013 Panoro announced that Lekoil decided to terminate the SPA. Panoro received a compensation of USD 7 million from Lekoil.

The OML113 Joint Venture is working towards a multi-phase development of the field - the first phase being the initial development of the Cenomanian oil reservoirs. During the quarter work continued on the preparation of the Field Development Plan (FDP) for the initial phase, which is due to be completed and delivered to the joint venture partners in early 2014 and is expected to be based on:

- drilling and completion of a new well, Aje-5;
- re-entry and completion of the previously drilled Aje-4; and
- oil production from the two wells to an FPSO.

The FDP represents the initial stage of a multiphase development concept with the initial focus on the Cenomanian oil reservoirs (including potential additional oil wells tied to the FPSO) while later phases will target development of the significant shallower, Turonian, gas/condensate resource (which represents the bulk of the contingent resource). In preparation for a development decision, the joint venture commenced acquiring some long lead items.

During the quarter the neighbouring license OPL310 announced a major oil discovery in the Turonian, Cenomanian, Albian and previously undrilled syn-rift reservoir. The implications of this syn-rift discovery on the OML113 license are being considered by the OML113 Joint Venture.

Financial information

Income statement review

Fourth quarter 2013 versus third quarter 2013

Panoro Energy reported EBITDA of USD 14.4 million for the fourth quarter 2013, compared to USD 3.8 million in the third quarter. The increase primarily reflects additional income of USD 7 million received on termination of OML 113 sale agreement with Lekoil and the write back of BS-3 acquisition related liabilities following the impairment to zero of the BS-3 licences.

Oil and gas revenue was USD 10.6 million in the fourth quarter 2013, decreasing from USD 10.8 million in the third quarter. The volume sold decreased by 65 BOE/day, or 1.7%, whereas the realised sale price increased slightly from USD 7.62 to USD 7.67/MMBtu. Gas sale prices are fixed in BRL and are therefore subject to currency movements on translation to USD for reporting purposes.

Production costs in the fourth quarter were USD 2.9 million compared to USD 4.0 million in the previous quarter, with the decrease mainly reflecting one-off decommissioning expenditure on abandonment of the BAS-128 well mostly incurred in 3Q 2013. Exploration related costs stood at USD 0.5 million for the current quarter compared to USD 0.1 million in 3Q. Increase was mainly due to billed operator G&A in the fourth quarter.

Strategic review costs were USD 0.9 million in the fourth quarter, an increase of USD 0.3 million compared to the previous quarter. These costs represent identifiable overheads incurred on the ongoing divestment and strategic review program. Part of these costs are incremental selling costs which, on completion of Rio das Contas, will be reclassified to the gain/loss on disposal. These costs are of a one-off nature and will discontinue once these processes conclude. The current quarter also includes legal and advisory costs incurred on attempted sale and subsequent termination of OML 113 (Aje) license.

General and administration costs increased slightly from USD 2.4 million in the third quarter to USD 2.6 million in the fourth quarter, with the increase mainly attributable to restructuring costs incurred on the phased exit from Brazil. The costs include G&A for Rio das Contas (company holding Manati), although these costs will be adjusted in the final working capital adjustment in the divestment transaction. The core G&A excluding Rio das Contas was around MUSD 2. Depreciation remained consistent at USD 0.1 million for both quarters. The depreciation of production assets and equipment has been suspended after classification of Rio das Contas as a held for sale item with effect from April 30, 2013.

The Company recognized net impairment of USD 46.2 million in relation to the complete write-down of Group's capitalised interest in BS-3 licenses (Cavalo Marinho and Estrela do Mar) after receiving notification from ANP requesting the consortium to relinquish the licenses. Costs in the third quarter related to expense incurred on Round 9 licenses and Coral which have since been surrendered.

Share based payments charges of USD 0.1 million were recognised in both the third and fourth quarters.

EBIT was thus a negative USD 32.0 million in the fourth quarter, compared to a positive USD 3.2 million in the third quarter.

Net financial items amounted to a negative USD 3.6 million in the fourth quarter, including net interest costs of USD 2.8 million, net other financial costs of USD 0.6 million, a net foreign exchange loss of USD 0.3 million, and a USD 0.1 million reversal for reassessment of bond liability required under the guidance of IAS 39. The latter represents effect of recognising the discounted value of the bond liability assuming a maximum of three-month redemption and is expected to coincide with the closing of the sale transaction of Rio das Contas to GeoPark.

In the third quarter, net financial items were a negative USD 0.3 million, included net interest costs of USD 3.1 million, net other financial costs of USD 0.1 million, net foreign exchange loss of USD 0.3 million and a USD 3.2 million reversal for reassessment of bond liability required under the guidance of IAS 39.

The USD 0.1 million reduction of the bond liability reassessment charge in the fourth quarter reflects the current expectation that bond redemption will be achieved prior to March 31, 2014. In the third quarter, bond redemption was assumed to take place prior to November 30, 2013.

The decrease in net interest costs reflects the effect of repayment of bond principal in November 2013, together with a strengthening of USD against NOK. Other financial costs increased due to charges incurred on repatriation of final balances of intercompany loans from Brazil to Norway; whereas foreign exchange losses primarily reflect exchange differences on assets and liabilities that are not denominated in USD.

Income before tax was a negative USD 35.6 million in the fourth quarter, compared to an income before tax of USD 2.9 million in the previous quarter.

The Group recognized an income tax charge of USD 2.3 million in the fourth quarter compared to a charge of USD 6.9 million in the previous quarter. This reflects expensing of current tax on income of Rio das Contas.

The loss for the quarter was thus USD 37.9 million, compared to a net loss of USD 3.9 million in the previous quarter.

Other comprehensive income of a negative USD 5.7 million was a result of translating Brazilian subsidiaries for reporting purposes, reflecting a weakening of the closing BRL against USD of approximately 5.0% during the quarter. Other comprehensive income was a negative USD 1.0 million in the third quarter.

2013 versus 2012

Panoro Energy reported EBITDA of USD 29.4 million for the year ended December 31, 2013, compared to USD 24.1 million for the same period in 2012.

The increase in EBITDA was primarily driven by USD 7.0 million income on termination of OML 113 sale agreement with Lekoil partially offset by lower margins on revenues from Manati field scheduled maintenance work carried out in April 2013, and one-off costs incurred on abandonment of the BAS-128 well.

Oil and gas revenue for the year was USD 43.6 million, down from USD 45.9 million in the previous year. The volume sold decreased by 104 BOE/day, or 2.8%. Despite the annual inflationary gas price increase in BRL, realised price declined slightly from USD 8.25 to USD 8.10/MMBtu due to a weakening of the average BRL against USD. Gas sale prices are fixed in BRL and are therefore subject to currency movements on translation to USD for reporting purposes.

Production costs were USD 10.9 million in the current year, compared to USD 5.6 million in the same period last year, with the increase explained by the scheduled maintenance costs in 2013 and cost incurred on abandonment of the BAS-128 well.

Exploration related costs remained consistent at USD 0.9 million for both years.

Strategic review costs in the current year amounted to USD 2.2 million in the current year, representing identifiable overheads incurred on the ongoing divestment programme. Parts of these costs are incremental selling costs, which will be reclassified to the gain/loss on disposal upon completion of the Rio das Contas. These costs are of a one-off nature and will discontinue once these processes are concluded. There were no strategic review costs in 2012.

General and administration costs decreased to USD 10.7 million for the year ended December 31, 2013, compared to USD 16.3 million in the same period of 2012. The reduction reflects an ongoing cost reduction program undertaken by management.

Depreciation decreased to USD 2.5 million from USD 7.7 million in 2012. This reflects that the depreciation of production assets and equipment has been suspended after classification as a held for sale item with effect from April 1, 2013.

Net impairment charges of USD 46.8 million were recognized during 2013, owing to write-down of BS-3 licenses (Cavalo Marinho and Estrela do Mar) and small expenditure on Round-9 blocks and Coral prior to relinquishment. In November 2013, consortium partners were advised by ANP to meet the requirement of ADR wells in the development plan or risk forced relinquishment. Since then, the JV partners have attempted a farm-out of the licences which did not bring any success. As a result, it is imminent that the licences will be surrendered due to the non-commercial restrictions of ADR wells imposed by ANP and henceforth Panoro's interest in the BS-3 area has been fully impaired and the carrying value of BS-3 licences as of December 31, 2013 is nil. Impairment charges for 2012 also represent write-down of BS-3 licenses.

Share based payment charges were USD 0.2 million in the current period, compared to USD 1.2 million in the comparable period last year. The decline is mainly due to leavers and a declining vesting balance of options granted in the prior years.

Loss on disposal of the Company's MKB permit in Republic of Congo was USD 1.7 million, which was recognised during 2013.

This generated an EBIT of negative USD 21.8 million for the year ended December 31, 2013, compared to a negative USD 32.0 million in the previous year.

Net financial items amounted to a negative USD 22.2 million for the current year, including net interest costs of USD 13.0 million, net other financial costs of USD 1.2 million, a net foreign exchange gain of USD 0.7 million, and a USD 8.7 million charge to recognise reassessment of bond liability under IAS 39. The latter represents a discounted value of bond liability assuming a maximum of three month redemption assumption and is expected to coincide with the closing of the sale transaction of Rio das Contas to GeoPark.

This compared to net financial items of a negative USD 20.4 million in 2012, including net interest costs of USD 11.9 million, net other financial costs of USD 3.5 million, and a net foreign exchange loss of USD 4.9 million.

Loss before tax was USD 43.9 million for the year ended December 31, 2013, compared to USD 52.4 million in 2012.

The Group recognized an income tax charge of USD 10.8 million in 2013, compared to a benefit of USD 4.6 million in 2012. This mainly reflects reversal of deferred tax assets, which are less likely to be available for utilisation after completion of Rio das Contas sale.

The net loss was USD 54.7 million in 2013, compared to a net loss of USD 47.8 million in the previous year.

Other comprehensive income of a negative USD 19.1 million reflects translation of Brazilian subsidiaries for reporting purposes. The movement was a result of a 14.6% BRL weakening against USD since December 31, 2012. In the previous year, other comprehensive income was a negative USD 18.4 million.

Statement of financial position review

Movements to December 31, 2013 from September 30, 2013

Movements in the Group statement of financial position during the fourth quarter of 2013 were a combination of the following:

Non-current assets

Non-current assets amounted to USD 106.8 million at December 31, 2013, a decrease of USD 9.0 million from September 30, 2013.

Licences and exploration assets amounted to USD 94.8 million, a decrease of USD 6.9 million since September 2013. The decrease represented USD 45.8 million impairment of BS-3 licenses, offset by an increase of USD 34.4 million of reclassification of held for sale relating to Aje and additions to Dussafu of USD 4.3 million.

Production assets and equipment were classified as held for sale and amounted to USD 63.4 million, which was a decrease of USD 4.4 million since September 2013. This includes USD 3.8 million change in estimate of asset retirement obligation, with the remainder relating to currency movements.

Property, furniture, fixtures and equipment was USD 0.2 million at the end December 2013 decreasing by USD 0.4 million since September 2013. The decline is a result of phased write-down of Brazilian items prior to the exit.

Deferred tax assets decreased to USD 11.9 million per December 31, 2013, compared to USD 13.6 million per September 30, 2013.

Current assets

Current assets amounted to USD 57.7 million per December 31, 2013, compared to USD 75.6 million per September 30, 2013.

Trade and other receivables stood at USD 1.0 million, a decline from USD 1.9 million at the end of September 2013. The decrease in receivable was mainly due to collection of the BS-3 cash calls and the refund of the rent deposit for the London Office.

Cash and bank balances including restricted cash stood at USD 56.8 million per December 31, 2013, a decrease from USD 73.7 million per September 30, 2013. The decrease is mainly a result of bond interest and principal payments of USD 21.7 million partially offset by USD 4 million received during the quarter on termination of OML 113 sale agreement with Lekoil.

Assets classified as held for sale

Assets classified as held for sale amounted to USD 96.9 million per December 31, 2013, representing reclassifications of divested balances in relation to Rio das Contas in accordance with the requirements of IFRS 5. The breakdown of this balance is described in note 8 to the financial statements.

In comparison at September 30, 2013, assets classified as held for sale amounted to USD 137.9 million, representing reclassifications of divested balances in relation to OML 113 (Aje) and Rio das Contas (Manati). During the fourth quarter, items relating to Aje were reinstated to the respective lines of the statement of financial position after termination of sale agreement with Lekoil and change in management's plan to divest the asset.

Equity

Equity amounted to USD 118.4 million per December 31, 2013, compared to USD 161.9 million at the end of September 2013. The change reflects the loss for the period as well as negative effects of currency translation adjustment impacted by a decline in BRL against USD by almost 0.6% during the quarter. The equity ratio was 45% at the end of December 2013, declining from 49% at the end of September 2013.

Non-current liabilities

Total non-current liabilities increased by USD 0.9 million from the previous quarter. The liabilities increased from USD 3.5 million at September 30, 2013 to USD 4.4 million due to reinstatement of Aje related deferred tax liability after held for sale classification ceased to meet the criteria. The remaining USD 3.5 million represented estimates of milestone payments to certain stakeholders when BS-3 assets were acquired. Since, the assets have been fully impaired and it is less likely that these milestones will be achieved, the entire amount has been reversed during the fourth quarter.

Current liabilities

Current liabilities amounted to USD 124.2 million at December 31, 2013, compared to USD 139.8 million at the end of September 2013.

Current interest bearing debt (net of issue costs) including reassessment of bond liability was USD 118.9 million, a decrease from USD 137.2 million per the end of September 2013. The decrease represents payments of USD 21.7 million during the fourth quarter for bond interest and principal.

Accounts payable, accruals and other liabilities amounted to USD 5.3 million, an increase from USD 2.6 million at the end of September 2013. The increase is mainly a result of the inclusion of a USD 3.8 million Dussafu accrual for the 3D seismic survey.

Liabilities directly associated with assets classified as held for sale

Liabilities directly associated with assets classified as held for sale per December 31, 2013 amounted to USD 14.4 million, representing reclassifications of divested balances in relation to Rio das Contas (Manati) in accordance with the requirements of IFRS 5. The breakdown of this balance is described in note 8 of the financial statements.

Movements to December 31, 2013 from December 31, 2012

Movements in the Group statement of financial position during the year were a combination of the following:

Non-current assets

Non-current assets amounted to USD 106.8 million at December 31, 2013, a decrease of USD 168.9 million from December 31, 2012.

Licences and exploration assets amounted to USD 94.8 million, a decrease of USD 87.8 million since December 2012. The main reason for the decline was USD 56.4 million of cost de-recognition on divestment of the MKB permit and USD 45.8 million impairment of BS-3 licenses in Brazil. The remaining difference is explained by additions of USD 19.9 million mainly incurred on the Tortue well on the Dussafu licence, and negative currency translation adjustments of USD 2.3 million. Furthermore, USD 3.2 million of assets relating to Camarao Norte were classified as held for sale per December 31, 2013.

Production assets and equipment (Manati) was classified as held for sale and amounted to USD 63.4 million, which was a decrease of USD 6.0 million since December 2012. This included additions of USD 1.4 million, depreciation of USD 2.2 million, asset retirement obligation change in estimate of USD 3.7 million, and USD 8.9 million in negative effects of currency movements.

Property, furniture, fixtures and equipment was USD 0.2 million, declining from USD 1.0 million at December 31, 2012. The decline can be explained by reclassification to assets held for sale and phased write-down of items prior to exit from Brazil.

Deferred tax assets decreased to USD 11.9 million per December 31, 2013, compared to USD 20.1 million per December 31, 2012. The decline is due to de-recognition of deferred tax assets in the subsidiary Panoro Energy do Brasil Ltda, as these were less likely to be utilised after divestment of Rio das Contas.

Other non-current assets were all reclassified to assets held for sale and amounted to USD 0.7 million per December 31, 2013 compared to USD 2.6 million per December 31, 2012. These mainly consist of a long-term deposit related to the Manati abandonment fund. The decrease of USD 2.0 million was a result of payments out of the fund in 2013 to cover for the BAS-128 well decommissioning in the BCAM-40 license area, offset by the reclassification of furniture and fixtures of USD 0.4 million as assets held for sale.

Current assets

Current assets amounted to USD 57.7 million per December 31, 2013, compared to USD 92.5 million per December 31, 2012.

Trade and other receivables stood at USD 1.0 million, a decline from USD 19.0 million at the end of December 2012. Receivables for Manati gas amounting to USD 12.6 million were also reclassified to assets held for sale in the current period, as this is part of the working capital adjustment. A decline of USD 4.2 million reflects the divestment of MKB and the remaining USD 1.2 represents lower balances in JVs compared to previous year.

Cash and bank balances stood at USD 56.8 million per December 31, 2013, decreasing from USD 73.5 million per December 31, 2012. The decrease is mainly impacted by cash call payments relating to the Tortue drilling in Gabon, together with classification of USD 17.0 million cash in Rio das Contas under assets held for sale. Panoro will be entitled to approximately USD 0.7 million from these funds, to be adjusted in working capital on closing of the Manati sale to GeoPark. This was offset by consideration received from divestment of the MKB permit in Congo. Furthermore, payments in relation to bond interest and principal were also made during the year to be partially offset by proceeds from termination of Aje sale agreement.

Assets classified as held for sale

Assets classified as held for sale per December 31, 2013 of USD 96.9 million represents reclassifications of divested balances in relation to Rio das Contas (Manati), in accordance with the requirements of IFRS 5. The breakdown of this balance is described in note 8 of the financial statements.

Equity

Equity amounted to USD 118.4 million per December 31, 2013, compared to USD 192.1 million at the end of December 2012. The change reflects the loss for the period and negative currency translation effects impacted by a decline in BRL against USD by approximately 14.6% since December 2012. The equity ratio was 45% at the end of December 2013, declining from 52% at the end of December 2012.

Non-current liabilities

Total non-current liabilities amounted to USD 4.4 million per December 31, 2013, declining from USD 130.6 million at the end of December 2012.

Deferred tax liabilities were reported as held for sale items amounting to USD 4.4 million at the end of December 2013, compared to USD 10.8 million at the end of December 2012. The decrease reflects the reversal of deferred tax liability attributable to MKB on disposal and classification of USD 3.2 million of liabilities relating to Rio das Contas as held for sale items.

Other non-current liabilities were USD nil at the end of December 2013, compared to USD 9.0 million at December 2012. Portion of other non-current liabilities classified as held for sale was USD 6.7 million. The decline on a combined basis was due to reversal of acquisition-related liabilities, which were no longer required after divestment of MKB and impairment of BS-3 licences.

Current liabilities

Current liabilities amounted to USD 124.2 million at December 31, 2013, compared to USD 45.6 million at the end of December 2012.

Current interest bearing debt (net of issue costs) including fair value adjustment was USD 118.9 million, an increase from USD 15.5 million per the end of December 2012. This mainly represents reclassification of the entire bond liability to current. On an overall basis, bond liability in aggregate (excluding USD 8.7 million fair value adjustment) has declined from USD 126.3 million from December 31, 2012 to USD 110.2 as of December 31, 2013. The decline represents interest and principal repayments during 2013 and some foreign currency effects.

Accounts payable, accruals and other liabilities amounted to USD 5.3 million, a decrease from USD 30.1 million at the end of December 2012. The decrease is mainly a result of reversal of USD 20 million of liabilities towards West Africa joint venture together with USD 4.5 million of current payables reclassified as held for sale items.

Liabilities directly associated with assets classified as held for sale

Liabilities directly associated with assets classified as held for sale of USD 14.4 million per December 31, 2013 represents reclassifications of divested balances in relation to Rio das Contas (Manati) in accordance with the requirements of IFRS 5. The breakdown of this balance is described in note 8 of the financial statements.

Bonds, debt and other financial information

The Company was in compliance with its loan covenants at the end of the fourth quarter 2013. The equity ratio was 45% at the end of December 2013, down 7%-points from December 2013. The stock price closed the quarter at NOK 3.05/share.

The closing of the Rio das Contas transaction will trigger a mandatory redemption of Panoro Energy's outstanding USD and NOK bond tranches (PEN 01 PRO and PEN 02 PRO), totalling USD 110.2 million as of December 31, 2013. The redemption price for the bonds will either be equal to 106% of par value plus accrued interest, if closing occurs prior to November 15, 2014. Closing of the transaction and mandatory redemption is conditional inter alia on the receipt of the ANP approval. The repayment of the bonds will leave the Company debt free, and proceeds from other asset divestments will result in the Company holding a significant net cash position and substantial flexibility going forward.

Funding

Cash and bank balances amounted to USD 56.8 million at December 31, 2013, including restricted cash of USD 2.6 million. In addition, USD 17.0 million of cash equivalents held in the Company's subsidiary Rio das Contas have been classified as held for sale. Panoro is entitled to about USD 0.3 million from these funds, to be adjusted for in working capital on the closing of the sale transaction. Gross interest bearing debt was USD 110.2 million per December 31, 2013, excluding USD 8.7 million of fair value adjustment. The next interest payment is due in May 2014, amounting to USD 7.0 million.

Outlook

Panoro Energy's divestment of its Brazilian subsidiary Rio das Contas to GeoPark is pending ANP (Agencia Nacional do Petroleo) approval which is expected shortly.

The OML113 Joint Venture Field Development Plan (FDP) for the initial phase of the development of this Nigerian oil and gas field is expected to be submitted to the DPR (Department of Petroleum Resources) in Q1 2014 and will address an initial, two well development of the Cenomanian oil reservoirs.

On Dussafu a Competent Person Report is expected to be delivered by Gaffney Cline & Associates during first quarter 2014. Discussions within the partnership and with the DGH (Direction Générale des Hydrocarbures) will continue regarding Declaration of Commerciality. The new 3D seismic will generate additional exploration opportunities and de-risk exploration targets.

The Company is progressing according to plan with its G&A cost reduction efforts.

The Company remains fully focused on its strategic review process, with the main objective to sell the Company. The Company has mandated Evercore as advisor for the sales process. In parallel, the work continues to complete the divestments of Manati. Following the completion the Bond will be repaid and the company will be debt free.

The Board of Directors
Panoro Energy ASA
Oslo, February 19, 2014

Endre Ording Sund
Chairman

Silje Christine Augustson
Board member

Tone Kristin Omsted
Board member

Bjørn Kristian Stadheim
Board member

Condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED DECEMBER 31, 2013

Q4 2012	Q3 2013	Q4 2013	Amounts in USD 000	Note	2013 (Unaudited)	2012 Audited
(Unaudited)						
10,845	10,795	10,642	Oil and gas revenue		43,646	45,939
-	-	10,500	Other income	9	10,500	891
10,845	10,795	21,142	Total revenues and other income		54,146	46,830
(1,461)	(3,981)	(2,876)	Production costs		(10,877)	(5,557)
(94)	(107)	(482)	Exploration related costs		(922)	(903)
-	(573)	(867)	Strategic review costs		(2,190)	-
(3,688)	(2,373)	(2,560)	General and administrative costs		(10,723)	(16,312)
5,602	3,761	14,357	EBITDA		29,434	24,058
(1,810)	(52)	(51)	Depreciation		(2,459)	(7,713)
(47,150)	(364)	(46,180)	Impairment		(46,815)	(47,150)
(286)	(144)	(91)	Share based payments		(235)	(1,150)
-	-	(14)	Gain/(loss) on sale of exploration and evaluation and tangible assets (net of tax)	8	(1,681)	(75)
(43,644)	3,201	(31,979)	EBIT - Operating income/(loss)		(21,756)	(32,030)
(3,087)	(3,070)	(2,790)	Interest costs net of income		(13,007)	(11,937)
(1,029)	(98)	(611)	Other financial costs net of income		(1,182)	(3,499)
-	3,171	102	Effects of reassessment of bond liability		(8,694)	-
(1,415)	(260)	(343)	Net foreign exchange gain/(loss)		707	(4,926)
(49,175)	2,944	(35,621)	Income/(loss) before tax		(43,932)	(52,392)
11,069	(6,869)	(2,282)	Income tax benefit/(expense)	4	(10,821)	4,580
(38,106)	(3,925)	(37,903)	Net income/(loss) for the period		(54,753)	(47,812)
(1,409)	(1,034)	(5,653)	Exchange differences arising from translation of foreign operations		(19,138)	(18,400)
(1,409)	(1,034)	(5,653)	Other comprehensive income/(loss) for the period (net of tax)		(19,138)	(18,400)
(39,515)	(4,959)	(43,556)	Total comprehensive income/(loss) for the period		(73,891)	(66,212)
			Net income/(loss) for the period attributable to:			
(38,106)	(3,925)	(37,903)	Equity holders of the parent		(54,753)	(47,812)
			Total comprehensive income/(loss) for the period attributable to:			
(39,515)	(4,959)	(43,556)	Equity holders of the parent		(73,891)	(66,212)
			Earnings per share (Note 5)			
(0.16)	(0.02)	(0.16)	(USD) – Basic and diluted for income/(loss) for the period attributable to equity holders of the parent		(0.23)	(0.20)

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2013

<i>Amounts in USD 000</i>	Note	December 31, 2013 <i>(Unaudited)</i>	September 30, 2013 <i>(Unaudited)</i>	December 31, 2012 <i>(Audited)</i>
Non-current assets				
Licenses and exploration assets	6	94,755	101,661	182,569
Production assets and equipment	6	-	-	69,417
Property, furniture, fixtures and office equipment		189	580	1,021
Deferred tax assets		11,899	13,621	20,140
Other non-current assets		-	-	2,632
Total non-current assets		106,843	115,862	275,779
Current assets				
Trade and other receivables		969	1,915	19,019
Cash and cash equivalents	7	54,152	56,824	70,623
Restricted cash	7	2,604	16,894	2,880
Total current assets		57,725	75,633	92,522
Assets classified as held for sale	8	96,856	137,879	-
Total assets		261,424	329,374	368,301
Equity				
Share capital	9	56,333	56,333	56,333
Other equity		62,115	105,579	135,770
Equity attributable to equity holders of the parent		118,448	161,912	192,103
Non-current liabilities				
Non-current interest bearing debt	10	-	-	110,801
Deferred tax liabilities		4,376	-	10,817
Other non-current liabilities		-	3,500	8,953
Total non-current liabilities		4,376	3,500	130,571
Current liabilities				
Current interest bearing debt	10	118,912	137,210	15,496
Accounts payable, accruals and other liabilities		5,268	2,562	30,131
Total current liabilities		124,180	139,772	45,627
Liabilities directly associated with assets classified as held for sale	8	14,420	24,190	-
Total liabilities		142,976	167,462	176,198
Total equity and liabilities		261,424	329,374	368,301

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE PERIOD ENDED DECEMBER 31, 2013

Q4 2012	Q3 2013	Q4 2013	Amounts in USD 000	2013	2012
<i>(Unaudited)</i>					
Cash flows from operating activities					
(49,175)	2,944	(35,621)	Net (loss)/ income for the period before tax	(43,932)	(52,392)
Adjusted for:					
1,810	52	51	Depreciation	2,459	7,713
-	(3,171)	(102)	Effect of remeasurement of bond liability	8,694	(891)
47,150		46,815	Asset write-off and impairments	46,815	47,150
-	-	14	Loss on disposal of exploration and evaluation assets and tangible assets	1,681	75
4,116	3,168	3,401	Net finance costs	14,189	15,436
(891)	-	(10,500)	Other income	(10,500)	(891)
286	144	91	Share-based payments	235	1,150
1,415	260	343	Foreign exchange gains/losses	(707)	4,926
(4,096)	1,399	(445)	Increase/(decrease) in trade and other payables	2,584	(5,404)
4,192	(73)	2,024	(Increase)/decrease in trade and other receivables	1,177	5,023
-	-	(3,500)	Non-cash portion of long-term liability	(3,500)	-
(840)	(888)	(1,534)	Taxes paid	(4,432)	(3,022)
4,858	3,835	1,037	Net cash flows from operating activities	14,763	19,764
Cash flows from investing activities					
(7,699)	445	(3,619)	Investment in exploration, production and other assets	(22,030)	(21,777)
-	35,000	-	Proceeds and deposit on divestment of exploration and evaluation assets and tangible assets	35,000	16
	3,000	4,000	Incidental income on termination of sale agreement	7,000	
-	(8,536)	2,652	Cash and cash equivalents classified as held for sale	(17,015)	-
(7,699)	29,909	3,033	Net cash flows from investing activities	2,955	(21,761)
Cash flows from financing activities					
(10,590)	118	(8,311)	Net financial charges paid	(18,054)	(19,097)
(14,070)	-	(13,850)	Repayment of bond	(13,850)	(14,070)
14,807	(7,307)	14,290	Movement in restricted cash balance	276	100
(6,853)	(7,198)	(7,871)	Net cash flows from financing activities	(31,628)	(33,067)
1,373	(1,004)	1,129	Effect of foreign currency translation adjustment on cash balances	(2,561)	(2,252)
(11,321)	25,551	(2,672)	Change in cash and cash equivalents during the period	(16,471)	(37,316)
81,944	31,273	56,824	Cash and cash equivalents at the beginning of the period	70,623	107,939
70,623	56,824	54,152	Cash and cash equivalents at the end of the period	54,152	70,623

The cash and cash equivalents above do not include restricted cash balance of USD 2.6 million (September 30, 2013: USD 16.9 million and December 31, 2012: USD 2.9 million). Cash and cash equivalents of USD 17.0 million were classified as assets held for sale on December 31, 2013 (September 30, 2013: USD 19.7 million).

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2013 <i>Amounts in USD 000</i>	Attributable to equity holders of the parent						Total
	Issued capital	Share premium	Additional paid-in capital	Retained earnings	Other reserves	Currency translation reserve	
At January 1, 2013 - (Audited)	56,333	288,858	65,786	(156,035)	(37,647)	(25,192)	192,103
Net income/(loss) for the period	-	-	-	1,109	-	-	1,109
Other comprehensive income/(loss)	-	-	-	-	-	2,177	2,177
Total comprehensive income/(loss)	-	-	-	1,109	-	2,177	3,286
Employee share options	-	-	(70)	-	-	-	(70)
At March 31, 2013 - (Unaudited)	56,333	288,858	65,716	(154,926)	(37,647)	(23,015)	195,319
Net income/(loss) for the period	-	-	-	(14,034)	-	-	(14,034)
Other comprehensive income/(loss)	-	-	-	-	-	(14,628)	(14,628)
Total comprehensive income/(loss)	-	-	-	(14,034)	-	(14,628)	(28,662)
Employee share options	-	-	70	-	-	-	70
At June 30, 2013 - (Unaudited)	56,333	288,858	65,786	(168,960)	(37,647)	(37,643)	166,727
Net income/(loss) for the period	-	-	-	(3,925)	-	-	(3,925)
Other comprehensive income/(loss)	-	-	-	-	-	(1,034)	(1,034)
Total comprehensive income/(loss)	-	-	-	(3,925)	-	(1,034)	(4,959)
Employee share options	-	-	144	-	-	-	144
At September 30, 2013 - (Unaudited)	56,333	288,858	65,930	(172,885)	(37,647)	(38,677)	161,912
Net income/(loss) for the period	-	-	-	(37,902)	-	-	(37,902)
Other comprehensive income/(loss)	-	-	-	-	-	(5,653)	(5,653)
Total comprehensive income/(loss)	-	-	-	(37,902)	-	(5,653)	(43,555)
Employee share options	-	-	91	-	-	-	91
At December 31, 2013 - (Unaudited)	56,333	288,858	66,021	(210,787)	(37,647)	(44,330)	118,448

For the nine months ended December 31, 2012 <i>Amounts in USD 000</i>	Attributable to equity holders of the parent						Total
	Issued capital	Share premium	Additional paid-in capital	Retained earnings	Other reserves	Currency translation reserve	
At January 1, 2012 - (Audited)	56,333	288,858	64,636	(108,223)	(37,647)	(6,792)	257,165
Net income/(loss) for the period	-	-	-	411	-	-	411
Other comprehensive income/(loss)	-	-	-	-	-	3,190	3,190
Total comprehensive income/(loss)	-	-	-	411	-	3,190	3,601
Employee share options	-	-	369	-	-	-	369
At March 31, 2012 - (Unaudited)	56,333	288,858	65,005	(107,812)	(37,647)	(3,602)	261,135
Net income/(loss) for the period	-	-	-	(8,684)	-	-	(8,684)
Other comprehensive income/(loss)	-	-	-	-	-	(19,341)	(19,341)
Total comprehensive income/(loss)	-	-	-	(8,684)	-	(19,341)	(28,025)
Employee share options	-	-	364	-	-	-	364
At June 30, 2012 - (Unaudited)	56,333	288,858	65,369	(116,496)	(37,647)	(22,943)	233,474
Net income/(loss) for the period	-	-	-	(1,433)	-	-	(1,433)
Other comprehensive income/(loss)	-	-	-	-	-	(840)	(840)
Total comprehensive income/(loss)	-	-	-	(1,433)	-	(840)	(2,273)
Employee share options	-	-	131	-	-	-	131
At September 30, 2012 - (Unaudited)	56,333	288,858	65,500	(117,929)	(37,647)	(23,783)	231,332
Net income/(loss) for the period	-	-	-	(38,106)	-	-	(38,106)
Other comprehensive income/(loss)	-	-	-	-	-	(1,409)	(1,409)
Total comprehensive income/(loss)	-	-	-	(38,106)	-	(1,409)	(39,515)
Employee share options	-	-	286	-	-	-	286
At December 31, 2012 - (Unaudited)	56,333	288,858	65,786	(156,035)	(37,647)	(25,192)	192,103

The accompanying notes form an integral part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

1. Corporate information

The holding Company, Panoro Energy ASA, was incorporated on April 28, 2009 as a public limited company under the Norwegian Public Limited Companies Act of June 19, 1997 No. 45. The registered organisation number of the Company is 994 051 067 and its registered office is Dronning Maudsgt. 1-3, 0124 Oslo, Norway.

The Company and its subsidiaries are engaged in exploration and production of oil and gas resources in Brazil and West Africa. The condensed consolidated financial statements of the Group for the period ended December 31, 2013 were authorised for issue by the Board of Directors on February 19, 2014.

The Company's shares are traded on the Oslo Stock Exchange under the ticker symbol PEN.

2. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", as adopted by the EU. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the financial information in the Company's 2012 Annual report. The 2012 Annual report is available on the Company's website at <http://www.panoroenergy.com>.

The condensed consolidated financial statements are presented in US Dollars and all values are rounded to the nearest thousand dollars (USD 000), except when otherwise stated.

2.1 Significant accounting policies

The accounting policies adopted in preparation of these condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2012, except for the adoption of new standards and interpretations effective as of January 1, 2013.

Several new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

3. Segment information

The Group operated predominantly in one business segment being the exploration and production of oil and gas, which is split by geographic areas for management purposes and the two regions being West Africa and Brazil.

The Group's reportable segments, for both management and financial reporting purposes, are as follows:

- The West African segment holds the following assets:
 - The Dussafu licence representing the Group's 33.3% working interest in the Dussafu Marin exploration licence in Gabon.
 - The OML113-Aje represents the Group's 6.5% participating interest (12.19% profit interest) in the OML113-Aje exploration licence in Nigeria.
- The Brazilian segment holds the following assets:
 - The BCAM-40 license holds the Group's 10% interest in Manati which is a producing field in Brazil. This also includes 10% interest in Camarao Norte field which is at a development stage. The Group's interest in BCAM-40 is classified as held-for-sale.
 - The BS-3 Project holds the Group's interest in a portfolio of offshore licences in Santos basin, Brazil comprising 50% interest in Cavalo Marinho, 65% interest in Estrela do Mar.
- The 'Corporate' category consists of head office and service company operations that are not directly attributable to the other segments.

Management monitors the operating results of business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on capital expenditure and production levels. Details of group segments are reported below.

Q4 2012	Q3 2013	Q4 2013		2013	2012
<i>(Unaudited)</i>			OPERATING SEGMENTS - GROUP NET SALES	<i>(Unaudited)</i>	
Group net sales BOE/day					
3,668	3,741	3,676	Manati - net of our interest	3,592	3,696
NET SALES					
Natural gas production (MMBtu)					
1,917,019	1,957,605	1,922,703	Manati - net of our interest	7,457,418	7,689,327
Price per unit					
Estimated gas price (USD/MMBtu before royalties and taxes)					
7.85	7.62	7.67	Manati	8.10	8.25

Q4 2012	Q3 2013	Q4 2013		2013	2012
<i>(Unaudited)</i>			OPERATING SEGMENTS - BRAZIL	<i>(Unaudited)</i>	
			<i>in USD 000</i>		
			Manati & Brazil licences		
10,845	10,795	10,642	Sales - gas and condensate	43,646	45,939
-	-	3,500	Other income	3,500	891
7,822	5,532	9,830	EBITDA	30,415	33,112
1,784	30	29	Depreciation and amortisation	2,366	7,568
47,150	364	46,180	Impairment of E&E assets	46,815	47,150
-	66,642	-	Segment assets excluding held for sale	19,507	179,000
-	104,358	-	Segment assets classified as held for sale	96,856	-
			OPERATING SEGMENTS - WEST AFRICA		
			<i>in USD 000</i>		
			West Africa assets		
-	-	-	Other income	-	-
(31)	(824)	(415)	EBITDA	(1,406)	(438)
-	-	(14)	Gain / (loss) on disposal of licenses	(1,681)	-
-	55,885	-	Segment assets excluding held for sale	94,544	135,949
-	33,521	-	Segment assets classified as held for sale	-	-
			CORPORATE		
			<i>in USD 000</i>		
-	-	7,000	Other income	7,000	-
(2,189)	(947)	4,942	EBITDA	425	(8,616)
26	22	22	Depreciation and amortisation	93	145
-	68,986	-	Segment assets excluding held for sale	50,517	53,352
			CONSOLIDATED		
			<i>in USD 000</i>		
10,845	10,795	10,642	Sales - gas and condensate - total	43,646	45,939
-	-	10,500	Other income	10,500	891
5,602	3,761	14,357	EBITDA	29,434	24,058
1,810	52	51	Depreciation and amortisation	2,459	7,713
-	-	(14)	Gain / (loss) on disposal of licenses	(1,681)	-
47,150	364	46,180	Impairment of E&E assets	46,815	47,150
-	191,495	-	Segment assets excluding held for sale	164,568	368,301
-	137,879	-	Segment assets classified as held for sale	96,856	-

The segment assets represent position as of quarter ends and the statement of comprehensive income items represent results for the respective quarters presented.

There are no differences in the nature of measurement methods used on segment level compared with the interim condensed consolidated financial statements.

There are no inter-segment adjustments and eliminations for the periods presented.

4. Income tax

The major components of income tax in the interim consolidated statement of comprehensive income are:

Q4 2012	Q3 2013	Q4 2013		2013	2012
<i>USD 000 - (Unaudited)</i>				<i>USD 000 - (Unaudited)</i>	
			Income taxes		
903	1,351	1,601	Current income tax	4,882	2,952
(11,972)	5,518	681	Deferred income tax	5,939	(7,532)
(11,069)	6,869	2,282	Total tax (benefit)/charge for the period	10,821	(4,580)

5. Earnings per share

Q4 2012	Q3 2013	Q4 2013		2013	2012
<i>(Unaudited)</i>			<i>Amounts in USD 000, unless otherwise stated</i>	<i>(Unaudited)</i>	
(38,106)	(3,925)	(37,694)	Net profit / (loss) attributable to equity holders of the parent	(54,544)	(47,812)
234,546	234,546	234,546	Weighted average number of shares outstanding - in thousands	234,546	234,546
(0.16)	(0.02)	(0.16)	Basic and diluted earnings per share (USD)	(0.23)	(0.20)

Diluted earnings per share

The Group had 5,816,673 outstanding share options as of December 31, 2013 (September 30, 2013: 5,933,340 options and December 31, 2012: 9,800,000 options) that are potentially dilutive ordinary shares.

6. License interests, exploration and evaluation assets and production assets

	Licence interest, exploration and evaluation assets <i>USD 000</i>	Production assets <i>USD 000</i>
Net book value		
At January 1, 2013 <i>(Audited)</i>	182,569	69,417
Additions	19,905	1,352
Change in estimate of asset retirement obligation liability	-	3,407
Disposal	(56,411)	-
Depreciation	-	(2,202)
Impairment	(45,829)	-
Foreign currency translation adjustments	(2,295)	(8,556)
Classified as assets held for sale (see note 8)	(3,184)	(63,418)
At December 31, 2013 <i>(Unaudited)</i>	94,755	-

7. Cash and bank balances

	December 31, 2013 (Unaudited) USD 000	December 31, 2012 (Audited) USD 000
Cash and cash equivalents	54,152	70,623
Restricted cash	2,604	2,880
Cash and bank balances at the end of the period	56,756	73,503

In addition to the cash and bank balances of USD 56.8 million, cash and cash equivalents of USD 17.0 million held in the Company's subsidiary Rio das Contas have been classified as assets held for sale per requirements of IFRS 5. The Company will be entitled to approximately USD 0.7 million from these funds at the closing of transaction.

8. Disposal and non-current assets classified as held for sale

West Africa

MKB permit

On July 2, 2013, the Company's wholly owned subsidiary, Prevail Energy Congo SAU received the net proceeds from the sale of its 20% interest in the MKB permit to Société Nationale des Pétroles du Congo ("SNPC") the operator of the MKB Permit in the Republic of Congo. The transaction resulted in a net loss of USD 1.7 million which has been recognised in the statement of comprehensive income in the second quarter.

Under the obligations of the Sale Agreement Panoro Energy is restricted from providing further details of the transaction.

Brazil

On May 14, 2013, the Company's wholly owned subsidiary Panoro Energy do Brasil Ltda has entered into a sales and purchase agreement (SPA) to divest its Brazilian subsidiary Rio das Contas to GeoPark Brasil Ltda for a total consideration of USD 140 million plus contingent earn-out. Rio das Contas is the direct beneficial owner of 10% of the BCAM-40 Block in the Camamu-Almada basin offshore Brazil, which includes the Manati and Camarão Norte fields where Panoro Energy holds a 10% interest. Cash proceeds from the transaction will be used to redeem Panoro Energy's outstanding bond loans (ISIN NO 001 059097.9 and NO 001 059096.1) which will leave the Company debt free.

The purchase consideration for the shares in Rio das Contas comprises an initial payment of USD 140 million, adjusted by working capital, with effective date of the transaction April 30, 2013 to be paid in cash upon closing. In addition, a contingent earn-out will be paid in cash over the 5-year period from January 1, 2013 to December 31, 2017. The annual earn-out payments will equal 45 % of the annual net cash flow exceeding USD 25 million. The total earn-out is capped at USD 20 million.

The closing of the transaction will, amongst other conditions, depend on approval by the Brazilian regulatory authority ANP which can be anticipated in first quarter of 2014. In order to facilitate an efficient closing of transaction, the parties have entered into some necessary amendments to the original contract.

Under the requirements of IFRS 5 "Non-current assets Held for Sale and Discontinued Operations", the asset and certain directly related liabilities have been classified as Held for Sale in the statement of financial position.

The breakdown of assets classified as held for sale together with the related liabilities are disclosed in the following table:

	Brazil USD 000
Assets	
Licenses and exploration assets (BCAM-40)	3,184
Production assets and equipment (Manati)	63,418
Other non-current assets	663
Trade and other receivables	12,576
Cash and cash equivalents	17,015
Total assets classified as held for sale	96,856

Liabilities

Trade and other payables	4,502
Asset retirement obligation	6,671
Deferred tax liability	3,247
Total liabilities directly associated with assets classified as held for sale	<u>14,420</u>

9. Other income

Consequent to the termination of the OML 113 sale agreement between Panoro and Lekoil, USD 7.0 million of termination proceeds have been recognised as other income. Furthermore, OML 113 has been reclassified to exploration and evaluation assets from asset held for sale as disclosed in 3Q 2013; since it does not meet the criteria under IFRS 5 as held for sale item. Following the impairment of BS-3 licenses in PEDB in Q4 2013, USD 3.5 million of acquisition related liabilities, which were only payable once certain performance conditions were met on BS-3 licenses, have been written back in Q4 2013 as Other Income.

10. Share capital

The total number of ordinary shares in issue throughout the period ended September 30, 2013 was 234,545,786 with a nominal value of NOK 342,547,498.77.

11. Interest bearing debt

	December 31, 2013		December 31, 2012	
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	USD 000	USD 000	USD 000	USD 000
	Current	Non-current	Current	Non-current
NOK denominated loan	26,838	-	4,062	28,709
USD denominated loan	83,381	-	11,434	82,092
Effects of remeasurement of bond liability	8,694	-	-	-
Total	<u>118,913</u>	<u>-</u>	<u>15,496</u>	<u>110,801</u>

The amount above includes accrued interest to December 31, 2013 of USD 1.8 million (December 31, 2012: USD 1.9 million) and is net of unamortized bond issue costs of USD 2.5 million (December 31, 2012: USD 3.2 million).

The Company has entered into a sale agreement with GeoPark Holdings to sell its entire share capital in its fully owned subsidiary Rio das Contas (RdC) which also holds Manati field. The shares in RdC and Manati are pledged as security under the bond agreement which requires mandatory redemption of the loan on completion of sale transaction. Panoro management believes that the completion of the sale transaction is expected within one year of the balance sheet date and as such the entire bond loan has been reclassified as a current liability. Under the terms of the bond agreement, mandatory redemption will be at premium of 6% should the transaction complete before November 15, 2014. Considering the expected changes in cash flow profile of the bond loan, under the requirements of IAS 39 AG8, the bond liability has been remeasured using expected cash flows assuming a mandatory redemption date falling before November 15, 2014 discounted to the reporting date using the original effective interest rate. The difference of USD 8,694 thousand between the remeasured liability and the original carrying value has been expensed in the statement of comprehensive income with a corresponding adjustment to the carrying value in the statement of financial position. The expected redemption date has been assumed as March 31, 2014 for the purpose of remeasurement.

As per the bond agreement, the next interest payment of USD 5.3 million and NOK 11.1 million is due in May 2014.

The bonds are listed on Oslo ABM under quotes PEN 01 PRO and PEN 02 PRO.

Other information

Glossary and definitions

Bbl	One barrel of oil, equal to 42 US gallons or 159 liters
Bcf	Billion cubic feet
Bm³	Billion cubic meter
BOE	Barrel of oil equivalent
Btu	British thermal units, the energy content needed to heat one pint of water by one degree Fahrenheit
IP	Initial production
Mcf	Thousand cubic feet
MMcf	Million cubic feet
MMBOE	Million barrels of oil equivalents
MMBtu	Million British thermal units
MMm³	Million cubic meters
Tcf	Trillion cubic feet

Disclaimer

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