PAN ORIENT ENERGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

KPMG LLP
205 - 5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pan Orient Energy Corp.

We have audited the accompanying consolidated financial statements of Pan Orient Energy Corp., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pan Orient Energy Corp. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
April 19, 2016
Calgary, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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

($000s)	**December 31 2015**	December 31 2014
Assets		
Current		
Cash and cash equivalents	**66,170**	26,857
Accounts receivable	**1,369**	3,910
Taxes receivable (note 11)	**12,507**	12,915
	80,046	43,682
Deposits	**4,259**	4,617
Investment in Joint Venture (note 7)	**35,088**	-
Property, plant and equipment (note 8)	**581**	54,314
Exploration and evaluation (note 9)	**190,322**	187,057
Total assets	**310,296**	289,670
Liabilities		
Current		
Accounts payable and accrued liabilities	**4,678**	7,444
Taxes payable (note 11)	**467**	1
	5,145	7,445
Deferred tax liabilities (note 11)	**10,165**	26,121
Employee pension liabilities	**-**	96
Decommissioning provision (note 10)	**1,335**	3,783
Total liabilities	**16,645**	37,445
Shareholders' equity		
Share capital (note 12)	**113,770**	117,656
Contributed surplus	**25,316**	22,362
Non-controlling interest (note 16)	**17,169**	17,309
Accumulated other comprehensive income	**27,625**	14,180
Retained earnings	**109,771**	80,718
Total shareholders' equity	**293,651**	252,225
Total liabilities and shareholders' equity	**310,296**	289,670

Commitments (note 19)
Contingencies (note 20)
Subsequent events (note 21)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors:

(signed "Richard Alexander")
Director

(signed "Gerald Macey")
Director

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

($000s, except per share amounts)	Year Ended December 31 **2015**	2014
Revenue		
Oil	**809**	23,583
Royalties	**(38)**	(1,161)
Interest	**150**	281
	921	22,703
Expenses		
Loss from investment in Joint Venture (note 7)	**1,992**	-
Production and operating	**257**	3,613
Transportation	**24**	394
Depletion, depreciation and amortization	**1,067**	13,259
Exploration	**464**	721
General and administrative	**4,329**	5,406
Stock-based compensation	**1,738**	968
Impairment (note 9)	**2,354**	-
Foreign exchange gain	**(5,630)**	(540)
Gain on disposition of Thailand interest (note 6)	**(36,654)**	-
Gain on 2012 sale of Thailand interests	**-**	(22)
	(30,059)	23,799
Income (loss) before taxes and non-controlling interest	**30,980**	(1,096)
Taxes (note 11)		
Current income tax expense	**416**	2
Deferred income tax expense	**1,651**	1,446
	2,067	1,448
Net income (loss)	**28,913**	(2,544)
Other comprehensive income (loss)		
Foreign exchange gain on translation of foreign operations	**22,145**	11,644
Foreign exchange loss on translation of Joint Venture	**(214)**	-
Total other comprehensive income	**21,931**	11,644
Total comprehensive income	**50,844**	9,100
Net income (loss) attributable to:		
Common shareholders	**29,053**	(2,488)
Non-controlling interest (note 16)	**(140)**	(56)
Net income (loss)	**28,913**	(2,544)
Total comprehensive income (loss) attributable to:		
Common shareholders	**50,984**	9,156
Non-controlling interest (note 16)	**(140)**	(56)
Total comprehensive income	**50,844**	9,100
Net income (loss) per share attributable to common shareholders (note 12)		
Basic and diluted	**$ 0.52**	$ (0.04)

See accompanying notes to the consolidated financial statements.

Pan Orient Energy Corp.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars, unless otherwise noted)

($000s)	Share Capital	Contributed Surplus	NCI	AOCI	Retained Earnings	Total
Balance as at December 31, 2013	117,656	21,174	17,310	2,536	83,201	241,877
Net loss	-	-	(56)	-	(2,488)	(2,544)
Stock-based compensation expense	-	968	-	-	-	968
Capitalized stock-based compensation	-	220	-	-	-	220
Shares issued to non-controlling interest	-	-	60	-	-	60
Transactions effecting non-controlling interest	-	-	(5)	-	5	-
Other comprehensive income	-	-	-	11,644	-	11,644
Balance as at December 31, 2014	117,656	22,362	17,309	14,180	80,718	252,225
Balance as at December 31, 2014	117,656	22,362	17,309	14,180	80,718	252,225
Net income (loss)	-	-	(140)	-	29,053	28,913
Stock-based compensation expense	-	1,738	-	-	-	1,738
Capitalized stock-based compensation	-	21	-	-	-	21
Normal course issuer bid	(3,886)	1,195	-	-	-	(2,691)
Other comprehensive income	-	-	-	21,931	-	21,931
Disposition of Thailand interest (note 6)	-	-	-	(8,486)	-	(8,486)
Balance as at December 31, 2015	113,770	25,316	17,169	27,625	109,771	293,651

See accompanying notes to the consolidated financial statements.

Pan Orient Energy Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars, unless otherwise noted)

($000s)	Year Ended December 31 2015	2014
Cash Provided From (Used in)		
Operating Activities		
Net income (loss)	**28,913**	(2,544)
Adjustments for non-cash items:		
Deferred tax expense	**1,651**	1,446
Depletion, depreciation and amortization	**1,067**	13,259
Stock-based compensation	**1,738**	968
Accretion	**27**	64
Loss from investment in Joint Venture (note 7)	**1,992**	-
Impairment (note 9)	**2,354**	-
Gain on disposition of Thailand interest (note 6)	**(36,654)**	-
Gain on 2012 sale of Thailand interests	**-**	(22)
Stock-based payments	**-**	60
Decommissioning expenditures	**-**	(225)
Changes in non-cash working capital	**351**	(644)
Cash flow from operating activities	**1,439**	12,362
Investing Activities		
Property, plant and equipment	**(62)**	(4,388)
Exploration and evaluation	**(16,993)**	(18,221)
Disposal of exploration and evaluation assets	**9,764**	2,698
Net proceeds on disposition of Thailand interest	**52,028**	-
Cash and cash equivalents disposed on sale of Thailand interest	**(5,081)**	-
Proceeds from 2012 sale of Thailand interests	**-**	22
Deposits	**(423)**	(2,363)
Change in amounts due from Joint Venture	**1,293**	-
Changes in non-cash working capital	**(184)**	(4,904)
Cash flow from (used in) investing activities	**40,342**	(27,156)
Financing Activities		
Normal course issuer bid	**(2,691)**	-
Cash flow used in financing activities	**(2,691)**	-
Change in cash and cash equivalents	**39,090**	(14,794)
Effect of foreign exchange on cash and cash equivalents	**223**	(180)
Cash and cash equivalents, beginning of year	**26,857**	41,831
Cash and cash equivalents, end of year	**66,170**	26,857

See accompanying notes to the consolidated financial statements.

1) CORPORATE INFORMATION

Pan Orient Energy Corp. ("Pan Orient" or the "Company") is an Alberta, Canada corporation with shares listed on the TSX Venture Exchange ("TSX-V"). The records office and principal address is located at 1505, 505 – 3rd Street S.W., Calgary, Alberta, T2P 3E6.

The Company is an oil and natural gas company which holds properties onshore Thailand and Indonesia as well as an interest in Andora Energy Corporation ("Andora") which holds properties in Northern Alberta. The Company is continually pursuing other oil and natural gas exploration opportunities in Asia.

On February 2, 2015 the Company completed the sale of a 49.99% equity interest in Pan Orient Energy (Siam) Ltd. The transaction has resulted in Pan Orient Energy (Siam) Ltd. changing from a wholly owned subsidiary of Pan Orient to a jointly controlled investment effective February 2, 2015 (see note 6).

2) BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were approved by the Company's Board of Directors on April 19, 2016.

Use of Estimates and Judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the dates of the statements of financial position as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the dates of the financial statements. Actual results could differ materially from estimated amounts.

Initial recognition of the Investment in Joint Venture required management to record the retained interest in Pan Orient Energy (Siam) Ltd. at fair value. Management's estimate of fair value was based on the sales transaction whereby the Company sold a 49.99% equity interest in Pan Orient Energy (Siam) Ltd.

Amounts recorded for depletion and depreciation and amounts used for property, plant and equipment and exploration and evaluation cost impairment calculations are based on a number of factors including estimates of oil and natural gas reserves and future costs required to develop those reserves. To test impairment, costs are allocated into cash generating units ("CGUs") based on their ability to generate largely independent cash flows. The determination of CGUs is subject to judgment. The transfer of exploration and evaluation assets to property, plant and equipment is based on management's judgment of technical feasibility and commercial viability.

Stock-based compensation is subject to the estimation of what the ultimate payout will be using pricing models such as Black-Scholes which is based on significant assumptions such as expected volatility, dividend yield and expected term.

Amounts recorded for decommissioning provision and the related accretion expense requires the use of estimates with respect to the amount and timing of abandonment costs, inflation and interest rates.

The provision for income taxes is based on judgments in applying income tax law and estimates on the applicable tax rates, timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when an entity is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. All significant intercompany transactions and balances have been eliminated. Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share of changes in equity since the date of acquisition. All of the Company's material subsidiaries are wholly owned except for Andora, of which Pan Orient owns 71.8% of the outstanding common shares. The consolidated financial statements include a non-controlling interest representing 28.2% of Andora's assets and liabilities not owned by Pan Orient. Accounting policies are applied consistently throughout all consolidated entities and the reporting dates of the Company and its subsidiaries are coterminous.

(b) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognized or at the fair value of the non-controlling interest. Non-controlling interest is presented within equity and when there is a loss of control, a gain or loss is recognized on the sold and retained interests. Increases or decreases in the Company's ownership interest while retaining control is a capital transaction.

(c) Joint Arrangements

A joint arrangement represents an arrangement where two or more parties hold joint control. Joint control is deemed to exist where decisions regarding relevant activities of the arrangement require the unanimous consent of those parties sharing control.

A joint venture is a joint arrangement in which each venturer holds the rights to the net assets of the arrangement. Interests in joint ventures are accounted for using the equity method of accounting.

A joint operation is a joint arrangement in which each venturer holds the rights to the assets and obligations of the arrangement. Interests in joint operations are accounted for by recognizing the Company's share of the assets, liabilities, revenue and expenses.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and short-term investments with an original maturity date of three months or less.

(e) Exploration and Evaluation ("E&E")

Pre-exploration and pre-licensing costs associated with the investigating, bidding and acquisition of petroleum properties are expensed prior to obtaining a petroleum lease or concession.

Costs incurred prior to establishing commercial viability and technical feasibility, such as land and lease acquisition costs, and geological and geophysical costs, are initially classified as E&E assets. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable based on several factors including the assignment of proven and probable reserves. Upon determination of technical feasibility and commercial viability, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property, plant and equipment.

(f) Property, Plant and Equipment ("PP&E")

Unless initially classified as E&E assets, all costs related to the acquisition, exploration and development of petroleum and natural gas properties are capitalized and measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include land and lease acquisition costs, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, decommissioning costs, and carrying costs.

Petroleum and natural gas assets are accumulated in components, which generally are fields or groups of fields and then aggregated into CGUs. Depletion is provided on costs accumulated using the unit-of production method based on an independent engineering estimate of the Company's share of proved plus probable reserves, before royalties. Included in the depletion base are estimated future costs to be incurred in developing proved and probable reserves. Estimated salvage values are excluded from the depletion base.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized within profit or loss.

Cost incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts, including major inspection, of property, plant and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. The carrying amount of any replaced or sold component is derecognized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit and loss as incurred.

(g) Impairment of Assets

An impairment test is performed whenever events and circumstances indicate that the carrying value of the asset or CGU may exceed the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. E&E assets are allocated to the CGU or groups of CGUs to which they relate for purposes of impairment testing. If there is indication of an impairment loss, the costs carried on the statement of financial position in excess of the recoverable amount are charged to the statement of operations.

Impairment losses from prior periods are assessed at each reporting date for indications that the impairment loss no longer exists or has decreased. Impairment losses can be reversed if there is a change in the estimates used to determine the recoverable amount. Reversal of impairment losses cannot exceed the carrying value of the asset prior to impairment less any depreciation and depletion that would have been taken if no impairment was recognized.

(h) Decommissioning Provision

The Company recognizes a liability related to statutory, contractual or other legal obligations associated with the retirement of assets, when a reasonable estimate of the provision can be determined. A corresponding increase to the carrying amount of the related asset is recorded. The liability is increased as accretion is recognized over time through charges to accretion, which is included in finance costs. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying assets. Revisions to the estimated timing of cash flows, inflation rates, discount rates or to the original estimated undiscounted costs also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

(i) Revenue Recognition

Revenues associated with the sale of crude oil are recognized at the fair value of the consideration received or receivable when the significant risks and rewards of ownership have been transferred, which is when title passes from the Company to the customer.

(j) Stock-Based Compensation

The Company accounts for its stock-based compensation using the fair value method of accounting for stock options granted to directors and employees using the Black-Scholes option-pricing model. Stock-based compensation is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to share capital. The amount recognized as expense is adjusted for an estimated forfeiture rate for options that will not vest, which is adjusted as actual forfeitures occur, until the shares are fully vested.

(k) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets or liabilities are recorded to reflect the difference between the accounting and tax base of assets and liabilities, and income tax loss carry forwards. Deferred income taxes are measured using tax rates that are expected to apply to the period when the deferred tax asset is realized or deferred tax liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the end of the reporting period. The effect of a change in income tax rate is recognized in income in the period that the change occurs.

Deferred income tax assets are recognized for deductible temporary differences to the extent it is probable that future taxable profit will be available against which the deferred tax assets can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extend it is no longer probable that sufficient taxable profits will be available to allow the assets to be recovered.

The Company offsets deferred tax assets and deferred tax liabilities relating to the same taxable entity. The Company may also offset deferred tax assets and deferred tax liabilities relating to different taxable entities, where the amounts relate to income taxes levied by the same taxation authority and the entities intend to realize the assets and settle the liabilities simultaneously.

(l) Per Share Amounts

Basic per share information is calculated on the basis of the weighted average number of common shares outstanding during the period. Diluted per share information is calculated using the treasury stock method which assumes that any proceeds received by the Company upon the exercise of in-the-money stock options, plus unamortized stock compensation costs, would be used to buy back common shares at the average market price for the period.

(m) Foreign Currency

The Company's reporting currency is the Canadian dollar and its functional currencies are the Canadian dollar, the Thai baht and the U.S. dollar.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income. When a foreign operation is disposed of, or deemed to be disposed of, the relevant amount in AOCI (in the cumulative translation account) is transferred to profit or loss as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative translation account.

(n) Financial Instruments

All financial assets, liabilities and financial derivatives are initially recognized in the statement of financial position at fair value and must be classified as one of the following five categories: fair value through profit and loss ("held-for-trading"); held-to-maturity instruments; loans and receivables; available-for-sale financial assets; or other financial liabilities. Loans and receivables, held-to-maturity instruments and other financial liabilities are subsequently measured at amortized cost. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired.

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

(o) Segmented Information

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and returns that are different from those of other segments. The Company has three reportable segments which are comprised of oil and gas exploration, development and production activities within Thailand, Indonesia and Canada.

4) ACCOUNTING PRONOUNCEMENTS

IAS 1 – Presentation of Financial Statements

In December 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements to clarify existing requirements related to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2016 with earlier application permitted. The adoption of this amended standard is not expected to impact the Company's consolidated financial statements.

IFRS 9 – Financial Instruments

In July 2014, IFRS 9 Financial Instruments was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018 with earlier application permitted. The Company is currently assessing the impact of this standard.

IFRS 15 – Revenue

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers and in September 2015 deferred the effective date to January 1, 2018. It replaces existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2018 with earlier application permitted. The Company is currently assessing the impact of this standard.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases to replace IAS 17 Leases. IFRS 16 will eliminate the distinction between operating and financing leases and require all lease obligations to be presented as a liability on the statement of financial position. Application of this standard is effective for fiscal years beginning on or after January 1, 2019 with earlier application permitted. The Company is currently assessing the impact of this standard.

5) ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

There have been no new or amended accounting pronouncements that have had a material impact on the Company's consolidated financial statements for the year ended December 31, 2015.

6) DISPOSITION OF THAILAND INTEREST

On February 2, 2015 the Company sold a 49.99% equity interest in its subsidiary Pan Orient Energy (Siam) Ltd. and retained a 50.01% equity interest in the company. The transaction resulted in Pan Orient Energy (Siam) Ltd. changing from a wholly-owned and controlled subsidiary to a joint arrangement where the Company shares joint control with the purchaser of the 49.99% equity interest. The resulting joint arrangement is classified as a Joint Venture under IFRS 11 and is required to be accounted for using the equity method of accounting rather than consolidated as it had previously been when Pan Orient Energy (Siam) Ltd. was a controlled subsidiary. The change in accounting from consolidation to the equity method has resulted in the accounts of Pan Orient Energy (Siam) Ltd. being derecognized from the consolidated financial statements and a net investment related to the portion of the interest retained being recognized at its estimated fair value upon initial recognition. The estimated fair value of the Company's 50.01% retained interest in Pan Orient Energy (Siam) Ltd. was calculated based on the sale of the 49.99% equity interest in Pan Orient Energy (Siam) Ltd., adjusted for estimated changes in crude oil prices and foreign exchange rates from the date of the November 5, 2014 Share Sale and Purchase Agreement to the closing on February 2, 2015.

The resulting gain on the disposition is calculated as follows:

($000s)	
Sale of 49.99% equity interest on February 2, 2015	
Cash proceeds from disposition	53,456
Transaction costs	(1,428)
Net proceeds	52,028
Add:	
Initial recognition of retained interest in Joint Venture, at fair value	38,587
Deferred tax liability recognized on investment	(1,817)
Less:	
Amounts derecognized from the consolidated financial statements:	
Cash and cash equivalents	(5,081)
Non-cash working capital	(440)
Deposits	(781)
Property, plant and equipment	(57,353)
Exploration and evaluation	(20,972)
Employee pension liabilities	105
Decommissioning provision	2,645
Deferred tax liabilities	21,247
Accumulated other comprehensive income	8,486
Net assets derecognized from the consolidated financial statements	(52,144)
Gain on disposition of Thailand interest	36,654

7) INVESTMENT IN JOINT VENTURE

On February 2, 2015 the Company sold a 49.99% equity interest in its subsidiary Pan Orient Energy (Siam) Ltd. and retained a 50.01% equity interest in the company. The Company's retained interest in Pan Orient Energy (Siam) Ltd. is considered a Joint Venture under IFRS and is accounted for using the equity method. On February 2, 2015 the investment was recorded at fair value and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss subsequent to February 2, 2015. Distributions received from the Joint Venture reduce the carrying amount of the investment whereas funding to the Joint Venture increase the carrying amount. The Company's profit or loss includes its share of the Joint Venture's profit or loss and the Company's other comprehensive income includes its share of the Joint Venture's other comprehensive income.

The Company retained a 50.01% interest in Pan Orient Energy (Siam) Ltd. and the carrying amount is as follows:

	December 31	
($000s)	**2015**	**2014**
Investment in Joint Venture, beginning of year	-	-
Investment in Joint Venture retained (note 6)	38,587	-
Change in amounts due from Joint Venture	(1,293)	-
Net loss from Joint Venture	(1,992)	-
Foreign currency translation	(214)	-
Investment in Joint Venture, end of year	35,088	-

Pan Orient Energy (Siam) Ltd.		
Summarized Financial Information	**December 31**	
($000s)	**2015**	**2014**
Current assets	4,084	7,744
Non-current assets	73,542	73,531
Current liabilities	(768)	(1,229)
Non-current liabilities	(21,238)	(59,604)
Net assets	55,620	20,442
Pan Orient's Investment in Joint Venture		
Pan Orient's share of net assets (50.01%)	27,814	-
Fair value adjustment on initial recognition	8,924	-
Amortization of fair value adjustment on initial recognition	(357)	-
Change in amounts due from Joint Venture	(1,293)	-
Investment in Joint Venture	35,088	-

The Company's share of income or loss from the Joint Venture is as follows:

Pan Orient Energy (Siam) Ltd. Summarized Statement of Comprehensive Income (loss) ($000s)	**Year Ended December 31** **2015**	 **2014**
Oil revenue	12,898	23,583
Royalties	(634)	(1,161)
Interest income	17	40
Total net revenue	12,281	22,462
Production and operating	2,994	3,613
Transportation	348	394
Depletion and depreciation	14,123	13,106
Exploration expense	-	359
General and administrative	1,394	1,965
Foreign exchange loss [(1)]	3,072 [(1)]	-
Total expenses	21,931	19,437
Current income tax	1	2
Deferred income tax expense (recovery)	(3,131)	1,453
Total tax expense (recovery)	(3,130)	1,455
Net income (loss)	(6,520)	1,570
Other comprehensive income	4,546	4,362
Total comprehensive income (loss)	(1,974)	5,932
Pan Orient's share of income, consolidated into financial statements, up to February 1, 2015 (100% net to Pan Orient)		
Pan Orient's share of net income [(1)]	296 [(1)]	1,570
Pan Orient's share of other comprehensive income	4,975	4,362
Pan Orient's share of loss from Joint Venture under equity method, subsequent to February 1, 2015 (50.01% net to Pan Orient)		
Pan Orient's share of net loss	(1,635)	-
Amortization of fair value adjustment	(357)	-
Net loss from Joint Venture	(1,992)	-
Pan Orient's share of other comprehensive loss	(214)	-

(1) Net loss includes foreign exchange loss of $3.0 million in the Joint Venture from repayment of intercompany loans that is eliminated on consolidation.

8) PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the carrying amount of property, plant and equipment as at December 31, 2015 is set out below.

($000s)	Thailand	Indonesia	Canada	Total
Cost				
At December 31, 2013	86,234	179	1,342	87,755
Additions	4,379	3	6	4,388
Changes in decommissioning provision	67	-	-	67
Foreign currency translation	7,946	41	-	7,987
At December 31, 2014	98,626	223	1,348	100,197
Additions	60	2	-	62
Transferred from exploration and evaluation	16	-	-	16
Changes in decommissioning provision	(138)	-	-	(138)
Foreign currency translation	8,971	48	-	9,019
Disposition of Thailand interest (note 6)	(107,535)	-	-	(107,535)
At December 31, 2015	-	273	1,348	1,621
Accumulated depletion, depreciation and amortization				
At December 31, 2013	(28,808)	(97)	(585)	(29,490)
Depletion, depreciation and amortization	(13,106)	(47)	(106)	(13,259)
Foreign currency translation	(3,098)	(36)	-	(3,134)
At December 31, 2014	(45,012)	(180)	(691)	(45,883)
Depletion, depreciation and amortization	(943)	(47)	(77)	(1,067)
Foreign currency translation	(4,227)	(45)	-	(4,272)
Disposition of Thailand interest (note 6)	50,182	-	-	50,182
At December 31, 2015	-	(272)	(768)	(1,040)
Net book value				
At December 31, 2014	53,614	43	657	54,314
At December 31, 2015	-	1	580	581

On February 2, 2015 the Company sold a 49.99% equity interest in its Thailand subsidiary Pan Orient Energy (Siam) Ltd. and retained a 50.01% equity interest in the company. As a result of the sale the Company derecognized the consolidated accounts of Pan Orient Energy (Siam) Ltd. and recognized an Investment in Joint Venture for the Company's retained interest (see note 6).

General and administrative costs totaling $37 thousand (December 31, 2014 – $354 thousand) that were directly related to development activities have been capitalized as property, plant and equipment in Thailand up to the sale of the Thailand interest on February 2, 2015.

Future development costs of $18.2 million (December 31, 2014 - $16.8 million) in Thailand were included in the depletable base when calculating depletion up to the sale of the Thailand interest on February 2, 2015.

9) EXPLORATION AND EVALUATION

A reconciliation of the carrying amount of exploration and evaluation ("E&E") assets as at December 31, 2015 is set out below.

($000s)	Thailand	Indonesia	Canada	Total
At December 31, 2013	17,213	77,719	67,442	162,374
Additions	401	6,561	11,479	18,441
Disposition	-	-	(2,698)	(2,698)
Changes in decommissioning provision	-	-	185	185
Foreign currency translation	1,589	7,166	-	8,755
At December 31, 2014	19,203	91,446	76,408	187,057
Additions	-	12,324	4,690	17,014
Transferred to property, plant and equipment	(16)	-	-	(16)
Changes in decommissioning provision	-	40	59	99
Foreign currency translation	1,785	17,473	-	19,258
Impairment (note 9)	-	(2,354)	-	(2,354)
Disposition of interest in East Jabung PSC	-	(9,764)	-	(9,764)
Disposition of Thailand interest (note 6)	(20,972)	-	-	(20,972)
At December 31, 2015	-	109,165	81,157	190,322

General and administrative costs totaling $2.5 million (December 31, 2014 – $2.3 million) and stock-based compensation totaling $21 thousand (December 31, 2014 - $220 thousand) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

As at December 31, 2015 Andora's Sawn Lake steam assisted gravity drainage ("SAGD") demonstration project has not yet proven that it is commercially viable and all related costs and revenues are being capitalized as E&E assets until commercial viability is achieved. Commercial viability is determined based on several factors including the assignment of proven and probable reserves. Upon being determined commercially viable the related E&E assets will be tested for impairment and reclassified to property, plant and equipment where they will be depleted. (See note 21(b)).

On February 2, 2015 the Company sold a 49.99% equity interest in its Thailand subsidiary Pan Orient Energy (Siam) Ltd. and retained a 50.01% equity interest in the company. As a result of the sale the Company derecognized the consolidated accounts of Pan Orient Energy (Siam) Ltd. and recognized an Investment in Joint Venture for the Company's retained interest (see note 6).

On June 1, 2015 the Company completed the farm-out of a 51% interest in the East Jabung PSC in Indonesia and received an upfront payment of $9.8 million (US$8.0 million less 5% withheld for transfer taxes, plus US$181 thousand for reimbursed G&A). The Company has recorded a tax provision of US$337 thousand for expected branch profits tax that the Company expects to be payable in Indonesia on the transaction. The branch profit tax provision has been recorded as current tax expense.

Recoverability of the capitalized costs is dependent on successfully completing development of the properties. With respect to the Canadian properties, recoverability is also dependent on determining the technical feasibility of the project. Capitalized costs incurred to date do not necessarily represent present or future values.

In 2015 the Citarum PSC expired and the Company recorded a $2.4 million impairment charge for equipment inventory and other costs in Indonesia related to the Citarum PSC. With respect to the other exploration and evaluation assets, impairment indicators were considered, but none were identified.

10) DECOMMISSIONING PROVISION

A reconciliation of the Company's decommissioning provision at December 31, 2015 is set out below.

($000s)	Thailand	Indonesia	Canada	Total
At December 31, 2013	2,447	-	1,012	3,459
Obligations incurred	100	-	221	321
Revisions to obligations	(33)	-	(36)	(69)
Decommissioning expenditures	(225)	-	-	(225)
Accretion	49	-	15	64
Foreign currency translation	233	-	-	233
At December 31, 2014	2,571	-	1,212	3,783
Obligations incurred	-	40	-	40
Revisions to obligations	(138)	-	59	(79)
Accretion	5	-	22	27
Foreign currency translation	207	2	-	209
Disposition of Thailand interest (note 6)	(2,645)	-	-	(2,645)
At December 31, 2015	-	42	1,293	1,335

The decommissioning provision is based on the Company's net ownership of wells and facilities in Thailand, Indonesia and Canada, management's estimates of costs to abandon and reclaim those wells and facilities and the potential future timing of the costs to be incurred. Total undiscounted cash flows, escalated at 2.0% for inflation, required to settle the Company's decommissioning provision are estimated to be $2.0 million (December 31, 2014 – $4.7 million). Payments to settle the provision will be made over the operating lives of the underlying assets and are estimated to be incurred between 2016 and 2050. Estimated costs have been discounted at the risk-free interest rate in the jurisdiction in which the expenditure is expected to be incurred which averaged at 2% at December 31, 2015 (December 31, 2014 – 2%).

On February 2, 2015 the Company sold a 49.99% equity interest in its Thailand subsidiary Pan Orient Energy (Siam) Ltd. and retained a 50.01% equity interest in the company. As a result of the sale the Company derecognized the consolidated accounts of Pan Orient Energy (Siam) Ltd. and recognized an Investment in Joint Venture for the Company's retained interest (see note 6).

11) TAXES

The Company is required to pay both income tax and Special Remuneratory Benefit ("SRB") in Thailand. Income tax in Thailand is calculated at 50% (2014 – 50%) on petroleum income and 20% (2014 – 20%) on non-petroleum income. Taxable income in Thailand is comprised of cash flow from operations before changes in working capital less capital expenditures and other permitted deductions.

SRB tax is calculated separately for each of the Company's concessions and is not charged until all capital has been recovered. The sliding scale SRB rate ranges from 0 - 75% and is principally driven by production and pricing but is also subject to other adjustments such as changes in Thailand's consumer price index, wholesale price index and cumulative meters drilled on the concession. The calculated SRB tax rate is applied to petroleum profits as defined in Thai tax legislation which includes a deduction for capital spent. The Company did not incur any SRB tax expense for the years ended 2015 and 2014.

Taxes payable and receivable in separate jurisdictions have been presented separately.

A summary of Thailand taxes payable for the years ended December 31, 2015 and 2014 is as follows:

	Year Ended December 31	
($000s)	**2015**	2014
Thailand taxes payable, beginning of year	**1**	1
Current income tax expense	**-**	2
Taxes paid	**-**	(2)
Disposition of Thailand interest (note 6)	**(1)**	-
Thailand taxes payable, end of year	**-**	1

A summary of Canadian taxes receivable for the years ended December 31, 2015 and 2014 is as follows:

($000s)	Year Ended December 31 **2015**	2014
Canadian taxes receivable, beginning of year	**12,915**	12,915
Taxes received	**(408)**	-
Canadian taxes receivable, end of year	**12,507**	12,915

Current income tax receivable in Canada is based on management's application of current income tax laws and may be assessed differently by the Canadian taxation authorities.

A summary of Indonesian taxes payable for the years ended December 31, 2015 and 2014 is as follows:

($000s)	Year Ended December 31 **2015**	2014
Indonesian taxes payable, beginning of year	**-**	-
Current income tax expense	**416**	-
Foreign currency translation	**51**	-
Indonesian taxes payable, end of year	**467**	-

Income tax expense in Indonesia in 2015 relates to expected taxes payable on the gain for tax purposes arising on the farm-out of the East Jabung PSC.

A reconciliation of income taxes calculated at the statutory income tax rate to the income tax expense included in the consolidated statement of operations is as follows:

($000s)	Years Ended December 31 **2015**	2014
Income (loss) before income taxes and non-controlling interest	**30,980**	(1,096)
Statutory income tax rate	**26%**	25%
Expected income tax (recovery) at statutory rate	**8,055**	(274)
Increase (decrease) resulting from:		
Income taxes in jurisdictions with different rates	**763**	648
Non-taxable portion of capital gains	**(9,688)**	-
Change in unrecognized deferred tax assets	**1,421**	925
Non-deductible stock-based compensation	**452**	242
Non-deductible equity loss from investment in joint venture	**359**	-
Change in statutory income tax rate	**546**	-
Other	**159**	(93)
Income tax expense	**2,067**	1,448

The statutory rate was 26% in 2015 (2014 – 25%). The increase from 2014 to 2015 was due to an increase in the 2015 Alberta provincial corporate tax rate enacted by the Alberta provincial government in 2015.

The components of the Company's net deferred tax liabilities arising from temporary differences and loss carry-forwards are as follows. The tax losses expire from 2025 to 2035.

($000s)	**Balance at December 31 2013**	**Deferred tax expense**	**Recognized in equity**	**Balance at December 31 2014**
Petroleum and natural gas properties	40,870	431	2,644	43,945
Non-capital losses	(16,255)	1,015	(986)	(16,226)
Decommissioning provision	(1,477)	(5)	(107)	(1,589)
Share issue costs	(14)	5	-	(9)
Net deferred tax liability	23,124	1,446	1,551	26,121

($000s)	**Balance at December 31 2014**	**Deferred tax expense**	**Recognized in equity**	**Disposition of Thailand interest (note 6)**	**Investment in Joint Venture (note 6)**	**Balance at December 31 2015**
Petroleum and natural gas properties	43,945	2,095	2,906	(33,951)	-	14,995
Investment in joint venture	-	353	-	-	1,817	2,170
Unrealized foreign exchange gain	-	1,445	-	-	-	1,445
Non-capital and capital losses	(16,226)	(2,280)	(967)	11,382	-	(8,091)
Decommissioning provision	(1,589)	34	(116)	1,322	-	(349)
Share issue costs	(9)	4	-	-	-	(5)
Net deferred tax liability	26,121	1,651	1,823	(21,247)	1,817	10,165

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

($000s)	**December 31 2015**	December 31 2014
Petroleum and natural gas properties (1)	**3,822**	134,437
Non-capital losses	**-**	3,072
Decommissioning provision	**42**	-
Share issuance costs	**-**	594
Total allowance taken on deferred tax asset	**3,864**	138,103

(1) No tax asset has been recognized on the Company's Indonesian tax pools that are in excess of the carrying value of the Indonesian P&NG properties.

12) SHARE CAPITAL

(a) Authorized

Unlimited Common Voting Shares
Unlimited Preferred Shares

(b) Issued and Outstanding Class A Common Shares

Common Shares	**Number of shares**	**Amount (000s)**
Balance as at December 31, 2013 and December 31, 2014	56,760,307	$ 117,656
Normal course issuer bid	(1,874,900)	(3,886)
Balance as at December 31, 2015	54,885,407	$ 113,770

During the year the Company has purchased and cancelled 1,874,900 shares under a normal course issuer bid at prices ranging from $1.09 to $1.67 per share with a weighted average price of $1.44 per share.

(Expressed in Canadian dollars, unless otherwise noted)

(c) Options to Purchase Common Shares

In the third quarter of 2015 the Company granted 400,000 Share Appreciation Rights (note 12(e)) in exchange for cancelling 400,000 stock options.

	Number of Options	Weighted Average Exercise Price ($)
Options outstanding at December 31, 2013	5,589,500	4.01
Forfeited	(75,000)	2.71
Expired	(2,303,500)	5.88
Options outstanding at December 31, 2014	3,211,000	2.70
Granted	2,445,000	1.77
Cancelled	(400,000)	4.15
Expired	(90,000)	6.11
Options outstanding at December 31, 2015	5,166,000	2.09

	Options Outstanding at December 31, 2015			Options Exercisable at December 31, 2015		
Exercise Price ($)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)
1.29 – 1.75	250,000	1.29	4.67	83,333	1.29	4.67
1.76 – 2.25	3,381,000	1.86	3.69	1,917,667	1.89	3.37
2.26 – 2.75	1,485,000	2.71	1.68	1,485,000	2.71	1.68
2.76 – 2.97	50,000	2.97	1.65	50,000	2.97	1.65
1.29 – 2.97	5,166,000	2.09	3.14	3,536,000	2.23	2.67

Subsequent to year end, on February 16, 2016, the Company paid a $0.40 per share return of capital special distribution and reduced the exercise price of all outstanding options by $0.40 pursuant to an adjustment provision in the Company's stock option plan.

(d) Stock-based Compensation

The fair value of the stock options granted has been estimated on the grant dates using the Black-Scholes option pricing model. Weighted average assumptions and resultant fair values for stock options granted during the years ended December 31, 2015 and 2014 are as follows:

	Year Ended December 31	
	2015	2014
Risk free interest rate (%)	**1**	-
Expected lives (years)	**5**	-
Expected volatility (%)	**63**	-
Dividend per share (%)	**-**	-
Forfeiture rate (%)	**10**	-
Weighted average fair value, per option	**$ 0.94**	-

(Expressed in Canadian dollars, unless otherwise noted)

(e) Share Appreciation Rights

In the third quarter of 2015 the Company issued 400,000 Share Appreciation Rights ("SARs") in exchange for cancelling 400,000 options to purchase common shares. A SAR entitles the holder to receive a cash payment equal to the difference between the reference price of the SAR and the market price of the Company's common shares on the date the SAR is exercised and is accounted for under IFRS as a cash-settled plan. The SARs were granted with a reference price of $4.15 being the same as the exercise price of the options that were cancelled and have an expiry date of January 24, 2018.

	Number of SARs	Weighted Average Reference Price ($)
SARs outstanding at December 31, 2014	-	-
Granted	400,000	4.15
SARs outstanding at December 31, 2015	400,000	4.15

Subsequent to year end, on February 16, 2016, the Company paid a $0.40 per share return of capital special distribution and reduced the reference price of all outstanding SARS by $0.40 per SAR.

Subsequent to year end, in March 2016, all of the outstanding SARs were forfeited unexercised.

(f) Andora Energy Corporation

i) Issued and Outstanding Class A Common Shares

As at December 31, 2015 Andora had 100.1 million (December 31, 2014 – 100.0 million) common shares issued and outstanding of which Pan Orient held 71.8% (December 31, 2014 – 71.8%).

In the first quarter of 2014 Andora issued 100,000 common shares valued at $0.60 per share as consideration for cancelling 447,965 options to purchase common shares.

ii) Options to Purchase Common Shares of Andora

	Number of options	Weighted average exercise price ($)
Balance as at December 31, 2013	10,000,000	0.60
Cancelled	(447,965)	(0.60)
Balance as at December 31, 2014 & 2015	9,552,035	0.60

	Options Outstanding at December 31, 2015			Options Exercisable at December 31, 2015		
Exercise Price ($)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)
0.60	9,552,035	0.60	0.67	9,552,035	0.60	0.67

(g) Net Income (Loss) per Share Attributable to Common Shareholders

A reconciliation of the weighted average number of common shares used to calculate diluted net income (loss) per share is as follows:

	Year Ended December 31 2015	2014
Weighted average common shares – basic	**55,716,745**	56,760,307
Dilutive effect of stock options	**7,612**	-
Weighted average common shares – diluted	**55,724,357**	56,760,307
Net income (loss) attributable to common shareholders ($000s)	**29,053**	(2,488)
Net income (loss) per share, basic and diluted	**$ 0.52**	$ (0.04)

Options to purchase 4,916,000 common shares outstanding at December 31, 2015 (December 31, 2014 – 3,211,000) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

13) CAPITAL MANAGEMENT

The Company's capital consists of the following:

($000s)	December 31 2015	2014
Working capital and non-current deposit	**79,160**	40,854
Share capital	**113,770**	117,656

Pan Orient's primary objective for managing its capital structure is to maintain financial capacity for the purpose of sustaining future development of its businesses and maintaining investor, creditor and market confidence.

The Company considers its capital structure to include share capital and working capital plus non-current deposits. Management is continually monitoring changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas industry. The Company currently has sufficient cash on hand to carry out its planned activities. However, in the event that adjustments to the capital structure are necessary, the Company may consider issuing additional equity, raising debt or revising its capital investment programs.

Pan Orient's share capital is not subject to any external restrictions. In addition, the Company has not experienced any significant restrictions moving cash out of Thailand. Since the date of incorporation the Company has not paid or declared any dividends other than a $0.75 per common share special distribution in 2012, and a $0.40 per common share special distribution paid subsequent to year end on February 16, 2016 (see subsequent event note 21(a)). There were no changes to the Company's approach to capital management during the year.

14) FINANCIAL INSTRUMENTS

Overview

The nature of Pan Orient's operations exposes the Company to credit risk, liquidity risk and market risk. Changes in commodity prices, foreign exchange rates and interest rates may have a material effect on cash flows, net income and comprehensive income. This note provides information about the Company's exposure to each of the above risks as well as the Company's objectives, policies and processes for measuring and managing these risks.

Pan Orient's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management.

Fair Value

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities. Due to the short term nature of the Company's financial instruments the fair value approximates the carrying value.

Credit Risk

Credit risk is the risk of financial loss to the Company if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale of oil production; all of the Company's production is sold to a refinery owned by the Thai National Oil Company. Pan Orient is paid for its production on a monthly basis, typically within a week of the end of the month. The Company has assessed the risk of non-collection from the Thai government as minimal.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Company's short-term investments currently consist of bankers' acceptances and term deposits. It is not the Company's policy to utilize complex, higher-risk investment vehicles.

The carrying amount of accounts receivable, and cash and cash equivalents represents the maximum credit exposure. The Company did not write-off any receivables during the years ended December 31, 2015 or 2014.

As at December 31, 2015 and 2014 there were no significant amounts past due or impaired.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its work commitments and other financial obligations as they come due. Pan Orient's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meets its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation.

The Company's liquidity is dependent upon its existing cash position and its operating cash flows. To forecast and monitor liquidity, the Company prepares annual operating and capital expenditure budgets in each country which are monitored and updated as considered necessary. Working capital at December 31, 2015 of $74.9 million exceed minimum required operating and future capital expenditures for at least the next twelve months. The Company's liquidity risk is assessed as low.

The Company's only reported financial liabilities at December 31, 2015 are accounts payable, accrued liabilities and taxes of $5.1 million which will mature within one year.

The Company's work commitments in Thailand and Indonesia (note 19) are expected to be funded through cash balances, deposits, equipment inventory and expected future cash flow from Thailand properties.

The Company's commitments in Andora are expected to be funded through Andora's cash balances.

Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows, net income and comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Commodity Price Risk

Changes in commodity prices may significantly impact the results of the Company's operations and cash generated from operating activities. Crude oil prices are impacted by world economic and political events that dictate the levels of supply and demand. The Company did not have any commodity price contracts in place as at or during the year ended December 31, 2015 or 2014.

Interest Rate Risk

The Company is exposed to interest rate risk on its cash and cash equivalents. Changes in interest rates could impact the Company's cash flows, and net loss and comprehensive income (loss). A 1% change in the interest rate would impact net loss before tax by approximately $0.7 million (2014 - $0.3 million) based on the cash balances at year end.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that future cash flows, net income (loss) and comprehensive income (loss) will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum sales are denominated in Thai baht based on a USD oil price, and all operational and capital activities related to the Thailand properties are transacted in either Thai baht or the U.S. dollar. In addition, the underlying market prices in Thailand for petroleum are impacted by changes in the exchange rate between the Thai baht and the U.S. dollar. The work commitments in Indonesia are expected to be carried out in U.S. dollars.

Changes in foreign exchange rates between the Canadian dollar and the U.S. dollar and Thai baht can affect net income (loss) and other comprehensive income (loss) as a portion of the Company's operations use the U.S. dollar or Thai baht as their functional currency. The Company's reporting currency is the Canadian dollar and its functional currencies are the Canadian dollar, the Thai baht and the U.S. dollar ("USD"). Changes in foreign exchange rates between the Canadian dollar and the U.S. dollar and Thai baht can affect earnings.

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

	December 31, 2015			December 31, 2014		
	Thai baht (000s)	**US dollar ($000s)**	**Indonesia Rupiah (000s)**	Thai baht (000s)	US dollar ($000s)	Indonesia Rupiah (000s)
Cash and cash equivalents	**-**	**38,930**	**828,904**	163,404	1,844	668,568
Accounts receivable	**-**	**24**	**-**	42,566	112	-
Deposits	**-**	**585**	**39,322,758**	30,595	502	38,480,697
Accounts payable	**-**	**(2,635)**	**(5,230,002)**	(29,017)	(2,025)	(2,660,924)
Taxes payable	**-**	**(337)**	**-**	(25)	-	-
Net exposure in functional currency	**-**	**36,567**	**34,921,660**	207,523	433	36,488,341
Net exposure in Canadian dollars(1) ($000s)	**-**	**50,604**	**3,529**	7,411	501	3,542

(1) Translated at December 31, 2015 and 2014 exchange rates.

Based on financial instruments held at December 31, 2015 and 2014, fluctuations in the exchange rates as indicated below would have the following estimated effect on net income (loss) and other comprehensive income (loss):

	December 31	
($000s)	**2015**	2014
Effect of 1% change in CAD to USD exchange rate:		
Pre-tax net income (loss)	**531**	(2)
Other comprehensive income (loss)	**(25)**	(39)
Effect of 1% change in CAD to Rupiah exchange rate:		
Pre-tax net income (loss)	**-**	-
Other comprehensive income (loss)	**35**	75

15) SUBSIDIARIES

As at December 31, 2015 the Company had the following material subsidiaries:

Material Subsidiaries	Nature and Primary Place of Business	Ownership
Canadian Segment		
Andora Energy Corporation	Operator of and holds a 50% interest in the Sawn Lake SAGD Demonstration Project located in Northern Alberta.	71.8%
Thailand Segment		
Pan Orient Energy (Siam) Ltd. (1)	Operator of and holds a 100% interest in Concession L53/48 west of Bangkok.	50.01%
Indonesian Segment		
Ranhill Jambi Inc. Pte. Ltd.	Operator of and holds a 77% interest in the Batu Gajah production sharing contract onshore South Sumatra.	100.0%
Pan Orient Energy East Jabung Pte. Ltd.	Non-operator and holds a 49% interest in the East Jabung production sharing contract onshore and offshore South Sumatra.	100.0%
Pan Orient Energy (Citarum) Pte. Ltd.	Inactive, previously held an 89% interest in the Citarum production sharing contract which expired October 6, 2015.	100.0%
Bumi Parahyangan Energi Pte. Ltd.	Inactive, previously held an 11% interest in the Citarum production sharing contract which expired October 6, 2015.	72.7%
Ranhill Pamai Taluk Energy Pte. Ltd.	Inactive, relinquished the South CPP production sharing contract in 2015.	100.0%

(1) On February 2, 2015, the Company sold 49.99% of its equity interest in Pan Orient Energy (Siam) Ltd. The retained 50.01% is accounting for as a Joint Venture under IFRS and accounted for using the equity method.

The table above does not include wholly owned subsidiaries that are immediate holding companies of the operating subsidiaries.

16) NON-CONTROLLING INTERESTS

The following subsidiary has material non-controlling interests ("NCI"):

Name	Ownership interest held by NCI at December 31 2015	2014
Andora Energy Corporation ("Andora")	**28.2%**	28.2%

The following is summarized financial information for Andora before any intercompany eliminations:

($000s)	Year Ended December 31 2015	2014
Interest revenue	**53**	174
Total comprehensive loss	**(495)**	(196)
Total comprehensive loss attributable to non-controlling interests	**(140)**	(56)
Current assets	**4,394**	11,748
Non-current assets	**80,407**	75,725
Current liabilities	**(827)**	(3,609)
Non-current liabilities	**(8,174)**	(7,569)
Net assets	**75,800**	76,295
Net assets attributable to non-controlling interests	**21,395**	21,535
Consolidation adjustments	**(4,226)**	(4,226)
Net assets attributable to non-controlling interests, after consolidation	**17,169**	17,309
Cash flows from (used in) operating activities	**304**	(3)
Cash flows used in investing activities	**(6,872)**	(13,709)
Net decrease in cash and cash equivalents	**(6,568)**	(13,712)

17) RELATED PARTY DISCLOSURES

A company controlled by a family member of Andora's key management provided engineering services to Andora during 2015 in the amount of $83 thousand (2014 - $99 thousand).

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

	Year Ended December 31	
($000s)	**2015**	2014
Short-term benefits (1)(2)	**2,955**	2,752
Stock-based compensation (2)	**1,717**	1,076
Total	**4,672**	3,828

(1) Includes salaries, benefits, and directors fees.
(2) Before capitalization to exploration and development activities.

The Company's consolidated statement of operations is prepared primarily by nature of expenses, with the exception of employee compensation costs which are included in production and operating costs, general and administrative costs and stock-based compensation. The following table details the amount of employee compensation costs included in operating and general and administrative expenses in the statement of operations:

	Year Ended December 31	
($000s)	**2015**	2014
General and administrative (3)	**2,534**	2,824
Operating (3)	**70**	1,058
Stock-based compensation	**1,739**	968
Total employee compensation costs	**4,343**	4,850

(3) Only includes consolidated amounts from Pan Orient Energy (Siam) Ltd. up to February 1, 2015.

18) SEGMENTED INFORMATION

The Company has properties in three countries, each of which is considered a reportable segment. The three segments consist of: 1) partially developed conventional petroleum and natural gas properties in Thailand; 2) undeveloped petroleum and natural gas properties in Indonesia; and 3) an undeveloped heavy oil property in Canada. The following table provides information for each geographical segment for the years ended December 31:

As at:	**December 31, 2015**				December 31, 2014			
($000s)	**Thailand**	**Indonesia**	**Canada**	**Total**	Thailand	Indonesia	Canada	Total
Property, plant and equipment	**-**	**1**	**580**	**581**	53,614	43	657	54,314
Exploration and evaluation	**-**	**109,165**	**81,157**	**190,322**	19,203	91,446	76,408	187,057
Other assets	**35,109**	**5,636**	**78,648**	**119,393**	8,474	6,342	33,483	48,299
Total assets	**35,109**	**114,802**	**160,385**	**310,296**	81,291	97,831	110,548	289,670

Year Ended:	**December 31, 2015**				December 31, 2014			
($000s)	**Thailand**	**Indonesia**	**Canada**	**Total**	Thailand	Indonesia	Canada	Total
Oil revenue	**809**	**-**	**-**	**809**	23,583	-	-	23,583
Royalties	**(38)**	**-**	**-**	**(38)**	(1,161)	-	-	(1,161)
Interest revenue	**1**	**-**	**149**	**150**	40	-	241	281
Total revenue	**772**	**-**	**149**	**921**	22,462	-	241	22,703
Loss from investment in Joint Venture	**1,992**	**-**	**-**	**1,992**	-	-	-	-
Production and operating	**257**	**-**	**-**	**257**	3,613	-	-	3,613
Transportation	**24**	**-**	**-**	**24**	394	-	-	394
Depletion and depreciation	**943**	**47**	**77**	**1,067**	13,106	47	106	13,259
Exploration	**-**	**464**	**-**	**464**	359	362	-	721
General and administrative	**204**	**1,678**	**2,447**	**4,329**	1,981	1,547	1,878	5,406
Stock based compensation	**-**	**-**	**1,738**	**1,738**	-	-	968	968
Impairment	**-**	**2,354**	**-**	**2,354**	-	-	-	-
Foreign exchange (gain) loss	**(13)**	**881**	**(6,498)**	**(5,630)**	-	134	(674)	(540)
Gain on disposition of Thailand interest	**-**	**-**	**(36,654)**	**(36,654)**	-	-	-	-
2012 Sale of Thailand interests	**-**	**-**	**-**	**-**	-	-	(22)	(22)
Total expenses	**3,407**	**5,424**	**(38,890)**	**(30,059)**	19,453	2,090	2,256	23,799
Current income tax	**-**	**416**	**-**	**416**	2	-	-	2
Deferred income tax	**(340)**	**-**	**1,991**	**1,651**	1,453	-	(7)	1,446
Total taxes	**(340)**	**416**	**1,991**	**2,067**	1,455	-	(7)	1,448
Net income (loss) attributable to:								
Common shareholders	**(2,295)**	**(5,840)**	**37,188**	**29,053**	1,554	(2,090)	(1,952)	(2,488)
Non-controlling interest	**-**	**-**	**(140)**	**(140)**	-	-	(56)	(56)
Total net income (loss)	**(2,295)**	**(5,840)**	**37,048**	**28,913**	1,554	(2,090)	(2,008)	(2,544)
Capital expenditures	**60**	**12,326**	**4,669**	**17,055**	4,780	6,564	11,265	22,609

19) COMMITMENTS

As at December 31, 2015 the Company's estimated outstanding capital commitments are as follows:

Country and Concession Name	Remaining Work Program Commitment	Obligation Ending	Estimated Net Financial Commitment USD[(1)] ($000s)	Estimated Net Financial Commitment CAD[(1)] ($000s)
Indonesia [(2)]				
East Jabung [(3)]	▪ Geological studies	November 2016	75	105
	▪ Drill two exploration wells	November 2016	1,470	2,039
Total Indonesia			1,545	2,144
Canadian Heavy Oil Sands – Andora Energy Corporation				
Sawn Lake, Alberta	▪ Natural gas pipeline tie-in and tariff	2016	65	90
		2017	65	90
		October 2018	54	75
Total Canada			184	255
			1,729	**2,399**

(1) Translated at December 31, 2015 exchange rates.

(2) Indonesia financial commitments as provided above represent the required initial 3-year firm exploration work program required under the PSC. The extension of these initial 3-year firm exploration work program commitments have been successfully negotiated in the past with the Government of Indonesia ("GOI"). The deadlines for commitments and potential extension of the total exploration period with potential additional commitments is determined on a year-by-year basis as part of an annual submission of a work program which is approved by the GOI. Although extension of the deadline for completion of the 3-year firm exploration work program is a departure from the original contract, it is considered standard practice in Indonesia. In the past, such applications on behalf of Pan Orient have been approved by the GOI and management has no reason to believe that future requests will not be granted approval; however, there is no guarantee. Upon default of a commitment related to any of the first three years of a PSC, the operator is required to relinquish 15% of the original PSC area (the actual acreage relinquished is at the discretion of the operator). Depending on the stage of the PSC, failure to fulfill the required firm commitments may also result in penalty payment equal to the unfulfilled commitments and/or forfeiture of the PSC.

(3) On June 1, 2015, the Company completed the farm-out of a 51% participating interest and operatorship of the East Jabung PSC. Under the terms and conditions of the farm-out agreement, the farminee has a firm commitment to fund the first USD $10.0 million towards the first exploration well and a contingent commitment to fund the first USD $5.0 million towards an appraisal well, if justified. The commitment provided above represents the Company's 49% interest in the second exploration well and its share of the outstanding geological studies.

Management's estimate of the minimum amount to fulfill the commitments in Indonesia is based either on the amount stated in the PSC agreement, or the work program budget approved by the GOI if the work program activity has commenced.

Actual expenditures required to carry out these commitments may be significantly different from the estimates. The Company intends to fund commitments through expected cash flows from Thailand and the Company's existing cash balance.

The Company is committed to future minimum payments for office space in Indonesia and Canada. Payments required under these commitments for each of the next five years are as follows:

($000s) Year	Indonesia	Canada	Total
2016	150	155	305
2017	-	129	129
2018	-	-	-
2019	-	-	-
2020	-	-	-
Total	150	284	434

20) CONTINGENCIES

(a) The Company has significant international operations and subsidiaries incorporated outside of Canada. The international operations and earnings of the Company and its affiliates have been, and may in the future be, affected from time to time in varying degree by political developments and laws and regulations, such as forced divestiture of assets; restrictions on production, imports and exports; price controls; tax increases and retroactive tax claims; expropriation of property; cancellation of contract rights and environmental regulations. Both the likelihood of such occurrences and their overall effect upon the Company can vary greatly from country to country and are not predictable.

(b) The Tax Directorate General of Indonesia assessed several oil and gas companies operating in Indonesia for 2012, 2013 and 2014 Land and Building Tax using a new framework, especially for the calculation of surface Land and Building Tax on offshore acreage, which is being challenged by the impacted oil and gas companies in Indonesia. Pan Orient was issued a Tax Assessment and Notification for the East Jabung PSC for 78,705 million Indonesian rupiah or $7.9 million when translated at the December 31, 2015 exchange rate. The potential accrued penalty for the unpaid tax to the end of the period was an additional $2.8 million. Of the total amount for the assessed Land and Building Tax and penalty of $10.8 million, $10.1 million is associated with the 2013 assessment on the Company's offshore acreage which the Company applied to voluntarily relinquish in the fourth quarter of 2013 and finalized in 2014.

Pan Orient lodged an Objection with the Indonesian Tax Office in September 2013 in respect of the 2012 and 2013 Land and Building Tax and in August 2014 in respect of the 2014 Land and Building Tax for the East Jabung PSC. On September 25, 2014 the Indonesia Tax Office rejected the Company's Objection in respect of 2012 and 2013 and on 31 December 2014 the Tax Office rejected the Company's Objection in respect of 2014. Likewise, the Tax Office also rejected the objections of the other oil and gas companies for the years 2012, 2013 and 2014 on this issue. In the fourth quarter of 2014 the Company filed an appeal in respect of the 2012 and 2013 assessments to the Tax Office's Objection with the Indonesian Tax Court and, as required by Indonesian law to file an appeal with the Indonesian Tax Court, paid a refundable deposit of $4.0 million, which is equal to 50% of the tax being disputed. In the first quarter of 2015 the Company filed an appeal in respect of the 2014 assessment to the Tax Office's Objection with the Indonesian Tax Court and, as required by Indonesian law to file an appeal with the Indonesian Tax Court, paid a refundable deposit of $88,000, which is equal to 50% of the tax being disputed. Management believes that the Company has a strong technical position against the taxes assessed and has not recorded any provision in the consolidated financial statements. In the event the Company loses the appeal, it has the option to further appeal to a higher court level which may take three years to deliver a verdict. Regardless of the Company's decision to appeal to a higher court, in the event that it loses at the Tax Court stage it will be required to pay the total taxes less the already paid 50% deposit. The Company would also be required to pay a penalty up to a maximum of $2.8 million should it lose the appeal. If the Company then succeeds in its appeal to a higher court it will be entitled to a refund of all taxes and penalties paid after the Tax Court decision.

In the second quarter of 2015 Pan Orient completed the transfer of a 51% interest and operatorship of the East Jabung PSC. The Company is responsible for the contingency of the Land and Building Tax obligation of the East Jabung PSC as discussed in this note to the financial statements.

21) SUBSEQUENT EVENTS

(a) Special Distribution

On February 16, 2016 the Company paid a return of capital special distribution of $0.40 per share to common shareholders and reduced the exercise price of outstanding stock options by $0.40 per option. The special distribution decreased the Company's cash and cash equivalents by $22.0 million.

(b) Andora Suspension

Given the current low price environment for bitumen, Andora and its joint venture partners decided to suspend the Sawn Lake demonstration project operations at the end of February 2016. The demonstration project commenced bitumen production in September 2014 and has successfully captured the key data associated with the objectives of the demonstration project. The decision also considered the expectation that extremely low bitumen prices may continue for some time and the estimated time required for approval of an expansion application at the demonstration project site. It is expected that a reactivation of the demonstration project facility and wellpair would be considered as part of a potential expansion to 3,200 BOPD, and that an expansion is dependent on regulatory approval, completion of detailed engineering and a higher commodity price environment to support project economics and financing.

(c) Normal Course Issuer Bid

On March 22, 2016 the Company announced that it intends to continue the purchase of its common shares pursuant to the renewal of its normal course issuer bid. Under the terms of the bid, Pan Orient will be authorized to purchase, for cancellation, up to 4,549,963 of its common shares, subject to a maximum of 1,097,708 common shares during any 30 day period. Purchases under the bid will be made between March 28, 2016 and March 28, 2017.

PAN ORIENT ENERGY CORP.
1505, 505 - 3rd Street SW, Calgary Alberta Canada T2P 3E6