PAN ORIENT ENERGY CORP.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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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, 2016 and December 31, 2015, 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.

KPMG

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, 2016 and December 31, 2015, 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

March 21, 2017
Calgary, Canada

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

($000s)	**December 31 2016**	December 31 2015
Assets		
Current		
Cash and cash equivalents	**46,934**	66,170
Accounts receivable	**321**	1,369
Taxes receivable (note 11)	**-**	12,507
	47,255	80,046
Deposits (note 20)	**4,371**	4,259
Investment in Joint Venture (note 6)	**32,795**	35,088
Property, plant and equipment (note 7)	**525**	581
Exploration and evaluation (note 8)	**89,446**	190,322
Total assets	**174,392**	310,296
Liabilities		
Current		
Accounts payable and accrued liabilities	**1,660**	4,678
Taxes payable (note 11)	**148**	467
	1,808	5,145
Deferred tax liabilities (note 11)	**7,363**	10,165
Decommissioning provision (note 10)	**2,037**	1,335
Total liabilities	**11,208**	16,645
Shareholders' equity		
Share capital (note 12)	**91,816**	113,770
Contributed surplus	**26,006**	25,316
Non-controlling interest (note 16)	**17,051**	17,169
Accumulated other comprehensive income	**1,377**	27,625
Retained earnings	**26,934**	109,771
Total shareholders' equity	**163,184**	293,651
Total liabilities and shareholders' equity	**174,392**	310,296

Commitments (note 19)
Contingencies (note 20)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors:

(signed "Richard Alexander")	(signed "Gerald Macey")
Director	Director

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

($000s, except per share amounts)	**Year Ended December 31 2016**	2015
Revenue		
Oil	**-**	809
Royalties	**-**	(38)
Interest	**173**	150
	173	921
Expenses		
Loss from investment in Joint Venture (note 6)	**1,542**	1,992
Production and operating	**-**	257
Transportation	**-**	24
Depletion, depreciation and amortization	**60**	1,067
Exploration	**831**	464
General and administrative	**2,872**	4,329
Stock-based compensation	**640**	1,738
Impairment (note 9)	**79,714**	2,354
Foreign exchange loss (gain)	**142**	(5,630)
Gain on disposition of Thailand interest	**-**	(36,654)
	85,801	(30,059)
Income (loss) before taxes and non-controlling interest	**(85,628)**	30,980
Taxes (note 11)		
Current income tax expense	**129**	416
Deferred income tax expense (recovery)	**(2,802)**	1,651
	(2,673)	2,067
Net income (loss)	**(82,955)**	28,913
Other comprehensive income (loss)		
Foreign exchange gain (loss) on translation of foreign operations	**(3,106)**	22,145
Foreign exchange loss on translation of Joint Venture	**(579)**	(214)
Total other comprehensive income (loss)	**(3,685)**	21,931
Total comprehensive income (loss)	**(86,640)**	50,844
Net income (loss) attributable to:		
Common shareholders	**(82,837)**	29,053
Non-controlling interest (note 16)	**(118)**	(140)
Net income (loss)	**(82,955)**	28,913
Total comprehensive income (loss) attributable to:		
Common shareholders	**(86,522)**	50,984
Non-controlling interest (note 16)	**(118)**	(140)
Total comprehensive income	**(86,640)**	50,844
Net income (loss) per share attributable to common shareholders (note 12)		
Basic and diluted	**$ (1.51)**	$ 0.52

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, 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	-	-	-	(8,486)	-	(8,486)
Balance as at December 31, 2015	113,770	25,316	17,169	27,625	109,771	293,651
Balance as at December 31, 2015	113,770	25,316	17,169	27,625	109,771	293,651
Net loss	-	-	(118)	-	(82,837)	(82,955)
Stock-based compensation expense	-	640	-	-	-	640
Capitalized stock-based compensation	-	50	-	-	-	50
Special distribution (note 12)	(21,954)	-	-	-	-	(21,954)
Other comprehensive income	-	-	-	(3,685)	-	(3,685)
AOCI on impaired assets (note 9)	-	-	-	(22,563)	-	(22,563)
Balance as at December 31, 2016	91,816	26,006	17,051	1,377	26,934	163,184

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 2016	2015
Cash Provided From (Used in)		
Operating Activities		
Net income (loss)	**(82,955)**	28,913
Adjustments for non-cash items:		
Deferred tax expense (recovery)	**(2,802)**	1,651
Depletion, depreciation and amortization	**60**	1,067
Stock-based compensation	**640**	1,738
Accretion	**23**	27
Loss from investment in Joint Venture (note 6)	**1,542**	1,992
Impairment (note 9)	**79,714**	2,354
Gain on disposition of Thailand interest	**-**	(36,654)
Changes in non-cash working capital	**12,398**	351
Cash flow from operating activities	**8,620**	1,439
Investing Activities		
Property, plant and equipment	**(4)**	(62)
Exploration and evaluation	**(3,901)**	(16,993)
Net proceeds on disposition of Thailand interest	**-**	52,028
Cash and cash equivalents disposed on sale of Thailand interest	**-**	(5,081)
Disposal of exploration and evaluation assets	**161**	9,764
Deposits	**(112)**	(423)
Change in amounts due from Joint Venture	**172**	1,293
Changes in non-cash working capital	**(2,180)**	(184)
Cash flow from (used in) investing activities	**(5,864)**	40,342
Financing Activities		
Special distribution	**(21,954)**	-
Normal course issuer bid	**-**	(2,691)
Cash flow used in financing activities	**(21,954)**	(2,691)
Change in cash and cash equivalents	**(19,198)**	39,090
Effect of foreign exchange on cash and cash equivalents	**(38)**	223
Cash and cash equivalents, beginning of year	**66,170**	26,857
Cash and cash equivalents, end of year	**46,934**	66,170

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 Indonesia, interests in Joint Venture in Thailand and interests 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 March 21, 2017.

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 extent it is no longer probable that sufficient taxable profits will be available to allow the assets to be recovered.

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

(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 subsidiaries' 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

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 and does not anticipate material changes to the valuation of its financial assets.

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 if the Company also applies IFRS 15. The Company is currently assessing the impact of this standard.

IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued an amendment to IAS 7 Statement of Cash Flows. The amendment to IAS 7 requires additional disclosures for changes in liabilities arising from financing activities. The amendment is effective for fiscal years beginning on or after January 1, 2017 and is applied on a prospective basis. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

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, 2016.

6) 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 and is accounted for using the equity method. On February 2, 2015 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.

Initial recognition of the Investment in Joint Venture was recorded at fair value. The carrying amount is subsequently increased or decreased to recognize the Company's share of the profit or loss from the Joint Venture. 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 carrying amount of the Company's Investment in Joint Venture is as follows:

	December 31	
($000s)	**2016**	**2015**
Investment in Joint Venture, beginning of year	35,088	-
Investment in Joint Venture retained	-	38,587
Change in amounts due from Joint Venture	(172)	(1,293)
Net loss from Joint Venture	(1,542)	(1,992)
Foreign currency translation	(579)	(214)
Investment in Joint Venture, end of year	32,795	35,088

Pan Orient Energy (Siam) Ltd.		
Summarized Financial Information	December 31	
($000s)	**2016**	**2015**
Current assets	5,157	4,084
Non-current assets	65,636	73,542
Current liabilities	(813)	(768)
Non-current liabilities	(17,988)	(21,238)
Net assets	51,992	55,620
Pan Orient's Investment in Joint Venture		
Pan Orient's share of net assets (50.01%)	25,999	27,814
Fair value adjustment on initial recognition	8,924	8,924
Amortization of fair value adjustment on initial recognition	(663)	(357)
Change in amounts due from Joint Venture, since initial recognition	(1,465)	(1,293)
Investment in Joint Venture	32,795	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 loss ($000s)	Year Ended December 31 **2016**	 **2015**
Oil revenue	9,256	12,898
Royalties	(458)	(634)
Interest income	23	17
Total net revenue	8,821	12,281
Production and operating	2,114	2,994
Transportation	287	348
Depletion and depreciation	10,212	14,123
General and administrative	1,501	1,394
Foreign exchange loss (1)	12	3,072
Total expenses	14,126	21,931
Current income tax	1	1
Deferred income tax recovery	(2,835)	(3,131)
Total tax recovery	(2,834)	(3,130)
Net loss	(2,471)	(6,520)
Other comprehensive income (loss)	(1,157)	4,546
Total comprehensive loss	(3,628)	(1,974)
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	-	296
Pan Orient's share of other comprehensive income	-	4,975
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	(1,236)	(1,635)
Amortization of fair value adjustment	(306)	(357)
Net loss from Joint Venture	(1,542)	(1,992)
Pan Orient's share of other comprehensive loss	(579)	(214)

(1) 2015 net loss included foreign exchange loss of $3.0 million in the Joint Venture from repayment of intercompany loans that were eliminated on consolidation.

7) PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the carrying amount of property, plant and equipment as at December 31, 2016 is set out below.

($000s)	Thailand	Indonesia	Canada	Total
Cost				
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
Additions	-	-	4	4
Foreign currency translation	-	35	-	35
At December 31, 2016	-	308	1,352	1,660
Accumulated depletion, depreciation and amortization				
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	50,182	-	-	50,182
At December 31, 2015	-	(272)	(768)	(1,040)
Depletion, depreciation and amortization	-	(1)	(59)	(60)
Foreign currency translation	-	(35)	-	(35)
At December 31, 2016	-	(308)	(827)	(1,135)
Net book value				
At December 31, 2015	-	1	580	581
At December 31, 2016	-	-	525	525

For the year ended December 31, 2015 general and administrative costs of $37 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.

For the year ended December 31, 2015 future development costs of $18.2 million in Thailand were included in the depletable base when calculating depletion up to the sale of the Thailand interest on February 2, 2015.

8) EXPLORATION AND EVALUATION

A reconciliation of the carrying amount of exploration and evaluation ("E&E") assets as at December 31, 2016 is set out below.

($000s)	Thailand	Indonesia	Canada	Total
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	-	(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
Additions	-	1,925	2,026	3,951
Changes in decommissioning provision	-	397	283	680
Foreign currency translation	-	(3,069)	-	(3,069)
Impairment (note 9)	-	(102,277)	-	(102,277)
Disposition	-	-	(161)	(161)
At December 31, 2016	-	6,141	83,305	89,446

General and administrative costs totaling $1.7 million (December 31, 2015 – $2.5 million) and stock-based compensation totaling $50 thousand (December 31, 2015 - $21 thousand) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

As at December 31, 2016 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.

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.

9) IMPAIRMENT

Indonesia – Batu Gajah PSC

Discussions with the Government of Indonesia ("GOI") indicated the possibility of a one year extension of the Batu Gajah PSC however the extension only allowed for the appraisal of the Akeh-1 discovery made in early 2016 and no other drilling activity. Information from other nearby wells led the Company to believe that the Akeh-1 accumulation is much more complex and substantially smaller than it first believed and given the information available the Company was not able to justify the expenditures required to drill the Akeh-2 appraisal well. On January 12, 2017 the Company notified the GOI of its intension to relinquish the Batu Gajah Block upon its expiry date of January 15, 2017. As a result of the expiry of the Batu Gajah PSC, the Company has written down all of the assets associated with the PSC to their recoverable amount. The carrying value of the Batu Gajah PSC's exploration and evaluation assets, after impairment, is nil.

The Batu Gajah PSC utilizes US dollars as its functional and presentation currency. The strengthening of the US dollar compared to the Canadian dollar since 2013 has resulted in a foreign currency translation gain included in Accumulated Other Comprehensive Income. The expiry of the Batu Gajah PSC is considered a disposal of the foreign operation and the Company has reclassified the cumulative amount of exchange differences from Accumulated Other Comprehensive Income to profit or loss through the impairment expense recognized on the Batu Gajah PSC.

As at December 31, 2016 the Company recognized the following impairment expense related to the Batu Gajah PSC:

($000s)	**Total**
Exploration and Evaluation assets – impairment of Batu Gajah PSC (note 8)	102,277
Accumulated Other Comprehensive Income – foreign currency translation of Batu Gajah PSC	(22,563)
Impairment expense	79,714

Indonesia – Citarum PSC

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.

10) DECOMMISSIONING PROVISION

A reconciliation of the Company's decommissioning provision at December 31, 2016 is set out below.

($000s)	**Thailand**	**Indonesia**	**Canada**	**Total**
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
Revisions to obligations	-	397	283	680
Accretion	-	1	22	23
Foreign currency translation	-	(1)	-	(1)
At December 31, 2016	-	439	1,598	2,037

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% for inflation (December 31, 2015 – 2%), required to settle the Company's decommissioning provision are estimated to be $3.5 million (December 31, 2015 – $2.0 million). Payments to settle the provision will be made over the operating lives of the underlying assets and are estimated to be incurred between 2017 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, 2016 (December 31, 2015 – 2%).

11) TAXES

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

A summary of Canadian taxes receivable for the years ended December 31, 2016 and 2015 is as follows:

($000s)	Year Ended December 31 **2016**	2015
Canadian taxes receivable, beginning of year	**12,507**	12,915
Taxes received	**(12,526)**	(408)
Current income tax expense	**(129)**	-
Canadian taxes (payable) receivable, end of year	**(148)**	12,507

Current income tax payable 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, 2016 and 2015 is as follows:

($000s)	Year Ended December 31 **2016**	2015
Indonesian taxes payable, beginning of year	**467**	-
Taxes paid	**(439)**	416
Foreign currency translation	**(28)**	51
Indonesian taxes payable, end of year	**-**	467

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

A summary of Thailand taxes payable for the years ended December 31, 2016 and 2015 is as follows:

($000s)	Year Ended December 31 **2016**	2015
Thailand taxes payable, beginning of year	**-**	1
Current income tax expense	**-**	-
Taxes paid	**-**	-
Disposition of Thailand interest (note 6)	**-**	(1)
Thailand taxes payable, end of year	**-**	-

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).

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 2016	2015
Income (loss) before income taxes and non-controlling interest	**(85,628)**	30,980
Statutory income tax rate	**27%**	26%
Expected income tax (recovery) at statutory rate	**(23,120)**	8,055
Increase (decrease) resulting from:		
Income taxes in jurisdictions with different rates	**(2,088)**	763
Non-taxable portion of capital gains	**-**	(9,688)
Non-deductible impairment	**23,906**	-
Tax loss on Indonesian Investments	**(10,469)**	-
Change in unrecognized deferred tax assets	**8,479**	1,421
Non-deductible stock-based compensation	**173**	452
Non-deductible equity loss from investment in joint venture	**416**	359
Change in statutory income tax rate	**-**	546
Other	**30**	159
Income tax expense (recovery)	**(2,673)**	2,067

The statutory rate was 27% in 2016 (2015 – 26%). Effective July 1, 2015 the Alberta corporate tax rate increased from 10% to 12%.

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 2036.

($000s)	**Balance at December 31, 2014**	**Deferred tax expense**	**Recognized in equity**	**Disposition of Thailand interest (note 6)**	**Investment in Joint Venture**	**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

($000s)	**Balance at December 31, 2015**	**Deferred tax expense**	**Balance at December 31, 2016**
Petroleum and natural gas properties	14,995	(383)	14,612
Investment in joint venture	2,170	(130)	2,040
Unrealized foreign exchange gain	1,445	(757)	688
Non-capital and capital losses	(8,091)	(1,454)	(9,545)
Decommissioning provision	(349)	(83)	(432)
Share issue costs	(5)	5	-
Net deferred tax liability	10,165	(2,802)	7,363

The following table provides details of deductible temporary differences for which no deferred tax asset has been recognized:

($000s)	**December 31 2016**	December 31 2015
Capital losses	**62,335**	-
Petroleum and natural gas properties	**3,714**	3,822
Decommissioning provision	**-**	42
Total	**66,049**	3,864

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, 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
Special distribution	-	(21,954)
Balance as at December 31, 2016	54,885,407	$ 91,816

On February 16, 2016 the Company paid a return of capital special distribution of $0.40 per share to common shareholders and recorded a corresponding reduction to share capital.

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 are permitted between March 28, 2016 and March 28, 2017.

(c) Options to Purchase Common Shares

	Number of Options	**Weighted Average Exercise Price ($)**
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
Option price adjustment	-	(0.40)
Forfeited	(175,000)	1.52
Options outstanding at December 31, 2016	4,991,000	1.69

(Expressed in Canadian dollars, unless otherwise noted)

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.

	Options Outstanding at December 31, 2016			Options Exercisable at December 31, 2016		
Exercise Price ($)	Number of Options	Weighted Average Exercise Price (1) ($)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price (1) ($)	Weighted Average Remaining Contractual Life (years)
0.89 – 1.00	250,000	0.89	3.67	166,666	0.89	3.67
1.01 – 1.50	2,195,000	1.43	3.10	1,463,334	1.43	3.10
1.51 – 2.00	1,011,000	1.52	1.92	1,011,000	1.52	1.92
2.01 – 2.57	1,535,000	2.32	0.68	1,535,000	2.32	0.68
0.89 – 2.57	4,991,000	1.69	2.14	4,176,000	1.76	1.95

(1) Exercise price includes the $0.40 reduction per option and represents the adjusted exercise price at December 31, 2016.

(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, 2016 and 2015 are as follows:

	Year Ended December 31	
	2016	2015
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

Note: No stock options were granted in 2016 and no assumptions are shown for 2016.

(e) Share Appreciation Rights

	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
SARs price adjustment	-	(0.40)
Forfeited	(400,000)	3.75
SARs outstanding at December 31, 2016	-	-

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. During 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, 2016 Andora had 100.1 million (December 31, 2015 – 100.1 million) common shares issued and outstanding of which Pan Orient held 71.8% (December 31, 2015 – 71.8%).

ii) Options to Purchase Common Shares of Andora

	Number of options	Weighted average exercise price ($)
Balance as at December 31, 2014 & 2015	9,552,035	0.60
Expired	(9,552,035)	(0.60)
Granted	9,500,000	0.15
Balance as at December 31, 2016	9,500,000	0.15

	Options Outstanding at December 31, 2016			Options Exercisable at December 31, 2016		
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)
0.15	9,500,000	0.15	3.84	3,166,669	0.15	3.84

During 2016, 9,552,035 options outstanding at the start of the year expired unexercised and on November 1, 2016 Andora issued 9,500,000 new options to its officers and directors with an exercise price of $0.15, a contractual life of four years and vest 1/3 upon the grant and then 1/3 each year on the first and second anniversary of the grant.

The fair value of the Andora 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, 2016 and 2015 are as follows:

	Year Ended December 31	
	2016	2015
Risk free interest rate (%)	**1**	-
Expected lives (years)	**4**	-
Expected volatility (%)	**59**	-
Dividend per share (%)	**-**	-
Forfeiture rate (%)	**7**	-
Weighted average fair value, per option	**$ 0.07**	-

Note: No stock options were granted in 2015 and no assumptions are shown for 2015.

(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	
	2016	2015
Weighted average common shares – basic	**54,885,407**	55,716,745
Dilutive effect of stock options	**-**	7,612
Weighted average common shares – diluted	**54,885,407**	55,724,357
Net income (loss) attributable to common shareholders ($000s)	**(82,837)**	29,053
Net income (loss) per share, basic and diluted	**$ (1.51)**	$ 0.52

Options to purchase 4,991,000 common shares outstanding at December 31, 2016 (December 31, 2015 – 4,916,000) 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:

	December 31	
($000s)	**2016**	2015
Working capital and non-current deposits	**49,818**	79,160
Share capital	**91,816**	113,770

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. 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 on February 16, 2016. 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, and taxes payable. 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, 2016 or 2015.

As at December 31, 2016 and 2015 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, 2016 is $45.4 million. The Company's liquidity risk is assessed as low.

The Company's only reported financial liabilities at December 31, 2016 are accounts payable, accrued liabilities and taxes payable totaling $1.8 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, 2016 or 2015.

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 $0.5 million (2015 - $0.7 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 subsidiaries' 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, 2016		December 31, 2015	
	US dollar ($000s)	**Indonesia Rupiah (000s)**	US dollar ($000s)	Indonesia Rupiah (000s)
Cash and cash equivalents	**22,678**	**592,131**	38,930	828,904
Accounts receivable	**22**	**-**	24	-
Deposits	**195**	**39,352,266**	585	39,322,758
Accounts payable	**(231)**	**(8,022,734)**	(2,635)	(5,230,002)
Taxes payable	**-**	**-**	(337)	-
Net exposure in functional currency	**22,664**	**31,921,663**	36,567	34,921,660
Net exposure in Canadian dollars[(1)] ($000s)	**30,434**	**3,217**	50,604	3,529

(1) Translated at December 31, 2016 and 2015 exchange rates.

Based on financial instruments held at December 31, 2016 and 2015, 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)	**2016**	2015
Effect of 1% change in CAD to USD exchange rate:		
Pre-tax net income (loss)	**299**	531
Other comprehensive income (loss)	**5**	(25)
Effect of 1% change in CAD to Rupiah exchange rate:		
Pre-tax net income (loss)	**-**	-
Other comprehensive income (loss)	**32**	35

15) SUBSIDIARIES

As at December 31, 2016 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. (Reported as investment in joint venture effective February 2, 2015)	Operator of and holds a 100% interest in Concession L53/48 west of Bangkok.	50.01%
Indonesian Segment		
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%
Ranhill Jambi Inc. Pte. Ltd.	Operator of and holds a 77% interest in the Batu Gajah production sharing contract onshore South Sumatra. The PSC expired subsequent to year end on January 15, 2017.	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%

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"):

	Ownership interest held by NCI at December 31	
Name	**2016**	**2015**
Andora Energy Corporation ("Andora")	**28.2%**	28.2%

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

	Year Ended December 31	
($000s)	**2016**	2015
Interest revenue	**16**	53
Total comprehensive loss	**(420)**	(495)
Total comprehensive loss attributable to non-controlling interests	**(118)**	(140)
Current assets	**2,029**	4,394
Non-current assets	**82,385**	80,407
Current liabilities	**(375)**	(827)
Non-current liabilities	**(8,409)**	(8,174)
Net assets	**75,630**	75,800
Net assets attributable to non-controlling interests	**21,348**	21,395
Changes in equity and other items impacting NCI	**(4,297)**	(4,226)
Non-controlling interest	**17,051**	17,169
Cash flows from (used in) operating activities	**(280)**	304
Cash flows used in investing activities	**(1,731)**	(6,872)
Net decrease in cash and cash equivalents	**(2,011)**	(6,568)

The Company recognized the non-controlling interest in Andora as the NCI's share of net assets at the acquisition date with the NCI's share of income or loss recognized in subsequent periods. Transactions impacting the equity of Andora, such as stock based compensation and contributed surplus, have resulted in a difference between the proportionate share of Andora's net assets and the Non-controlling Interest recognized in Pan Orient's consolidated statement of financial position.

17) RELATED PARTY DISCLOSURES

A company controlled by a family member of Andora's key management provided engineering services to Andora during 2016 in the amount of $22 thousand (2015 - $83 thousand).

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

	Year Ended December 31	
($000s)	**2016**	2015
Short-term benefits (1)(2)	**1,339**	2,955
Stock-based compensation (2)	**682**	1,717
Total	**2,021**	4,672

(1) Includes salaries, benefits, directors fees and the Company's share of key management compensation recorded in the income or loss in Thailand joint venture investment.
(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)	**2016**	2015
General and administrative expense (3)	**830**	2,534
Operating expense (3)	**-**	70
Stock-based compensation expense	**640**	1,739
Total employee compensation costs	**1,470**	4,343

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

18) SEGMENTED INFORMATION

The Company operates in three countries and each country is considered a reportable segment. The three segments consist of: 1) interest in joint venture in 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, 2016**				December 31, 2015		
($000s)	**Thailand**	**Indonesia**	**Canada**	**Total**	Thailand	Indonesia	Canada	Total
Property, plant and equipment	**-**	**-**	**525**	**525**	-	1	580	581
Exploration and evaluation	**-**	**6,141**	**83,305**	**89,446**	-	109,165	81,157	190,322
Other assets	**32,990**	**4,824**	**46,607**	**84,421**	35,109	5,636	78,648	119,393
Total assets	**32,990**	**10,965**	**130,437**	**174,392**	35,109	114,802	160,385	310,296

Year Ended:		**December 31, 2016**				December 31, 2015		
($000s)	**Thailand** [(1)]	**Indonesia**	**Canada**	**Total**	Thailand [(1)]	Indonesia	Canada	Total
Oil revenue	**-**	**-**	**-**	**-**	809	-	-	809
Royalties	**-**	**-**	**-**	**-**	(38)	-	-	(38)
Interest revenue	**-**	**-**	**173**	**173**	1	-	149	150
Total revenue	**-**	**-**	**173**	**173**	772	-	149	921
Loss from investment in Joint Venture	**1,542**	**-**	**-**	**1,542**	1,992	-	-	1,992
Production and operating	**-**	**-**	**-**	**-**	257	-	-	257
Transportation	**-**	**-**	**-**	**-**	24	-	-	24
Depletion and depreciation	**-**	**1**	**59**	**60**	943	47	77	1,067
Exploration	**-**	**831**	**-**	**831**	-	464	-	464
General and administrative	**30**	**517**	**2,325**	**2,872**	204	1,678	2,447	4,329
Stock based compensation	**-**	**-**	**640**	**640**	-	-	1,738	1,738
Impairment	**-**	**79,714**	**-**	**79,714**	-	2,354	-	2,354
Foreign exchange (gain) loss	**(1)**	**(22)**	**165**	**142**	(13)	881	(6,498)	(5,630)
Gain on disposition of Thailand interest	**-**	**-**	**-**	**-**	-	-	(36,654)	(36,654)
Total expenses	**1,571**	**81,041**	**3,189**	**85,801**	3,407	5,424	(38,890)	(30,059)
Current income tax	**-**	**-**	**129**	**129**	-	416	-	416
Deferred income tax	**-**	**-**	**(2,802)**	**(2,802)**	(340)	-	1,991	1,651
Total taxes	**-**	**-**	**(2,673)**	**(2,673)**	(340)	416	1,991	2,067
Net income (loss) attributable to:								
Common shareholders	**(1,571)**	**(81,041)**	**(225)**	**(82,837)**	(2,295)	(5,840)	37,188	29,053
Non-controlling interest	**-**	**-**	**(118)**	**(118)**	-	-	(140)	(140)
Total net income (loss)	**(1,571)**	**(81,041)**	**(343)**	**(82,955)**	(2,295)	(5,840)	37,048	28,913
Capital expenditures	**-**	**1,925**	**1,980**	**3,905**	60	12,326	4,669	17,055

(1) 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. 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. Pan Orient's 50.01% equity interest in the assets, liabilities, working capital, operations and capital expenditures of Pan Orient Energy (Siam) Ltd. from February 2, 2015 forward are recorded in Investment in Joint Venture.

19) COMMITMENTS

As at December 31, 2016 the Company's estimated outstanding capital commitments are as follows:

			Estimated Net Financial Commitment
Country and Concession Name	**Remaining Work Program Commitment**	**Obligation Ending**	**CAD[(1)] ($000s)**
Thailand Joint Venture			
Concession L53	▪ Surface reservation fee [(2)]	January 2021	-
Total Thailand			-
Indonesia			
East Jabung [(3)] [(4)]	▪ Geological studies	November 2017	68
	▪ Drill two exploration wells	November 2017	1,981
Total Indonesia			2,049
Canadian Heavy Oil Sands – Andora Energy Corporation			
Sawn Lake, Alberta	▪ Natural gas pipeline tie-in and tariff ($12 thousand per month)	2017	147
	▪ Natural gas pipeline tie-in and tariff ($12 thousand per month)	October 2018	122
Total Canada			269
			2,318

(1) Translated at December 31, 2016 exchange rates from the source currency in which the commitments were denominated in.

(2) The original nine year exploration period for Concession L53 expired on January 7, 2016. The Government of Thailand has approved a 215.87 square kilometer "reserved area" within Concession L53 for up to five years, with the payment of a surface reservation fee of $0.8 million gross ($0.4 million net to Pan Orient), for each year the Company elects to retain the reserved area. The Company is entitled to receive a refund of the surface reservation fee for a particular year in an amount equal to the petroleum exploration expenditures spent in that year within the reserved area up to the reservation fee paid. The Company intends to spend at least the full amount each year the reserved area is renewed and, therefore, it is expected that the annual reservation fee will be fully refunded. The reservation fee for the first and second years to January 7, 2018 has been paid and is included in the Company's Investment in Joint Venture in the consolidated statement of financial position. The Company met the exploration expenditures required for the first year and expects the first year's reservation fee to be refunded in 2017.

(3) The financial commitments for the East Jabung PSC in Indonesia as presented above represent the requisite firm exploration work program pursuant to the PSC. In November 2016 the operator applied to the GOI for an extension to November 2017 to complete the commitments of the East Jabung PSC. A work program is submitted to the GOI annually for approval, in conjunction with the request for any required extension of the exploration period and the determination of any additional commitments. Although extension of the deadline for completion of the exploration work program is a departure from the original contract, it is considered standard practice in Indonesia. In the past, such applications 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. 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.

(4) 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 commitment as stated in the PSC 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**
2017	133	129	262
2018	33	-	33
Total	166	129	295

20) CONTINGENCIES

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.

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 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, 2016 exchange rate. The Land and Building Tax assessments related to sub-surface assessments for 2012, 2013 and 2014 and a surface assessment for 2013. 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 $10.7 million, $10.0 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 the relinquishment was finalized in 2014.

Pan Orient lodged an Objection with the Indonesian Tax Office in respect of the Land and Building Tax for the East Jabung PSC. The Indonesia Tax Office rejected the Company's Objection. Likewise, the Tax Office also rejected the objections of the other oil and gas companies on this issue. The Company filed an appeal 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 $3.9 million, which is equal to 50% of the tax being disputed.

With respect to the 2013 surface tax assessment on the Company's offshore acreage of $10.0 million including accrued penalties, 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.

With respect to the sub-surface tax assessments totaling $0.7 million including accrued penalties, a number of impacted companies have received their appeal verdict issued by the Indonesian Tax Court and have all lost on their sub-surface tax appeals. Although the verdicts issued to these companies are completely independent to the case of Pan Orient, the Company has accrued an estimated sub-surface tax, including penalties, of $0.7 million which is included in accounts payable and accrued liabilities in the statement of financial position.

In the event the Company loses its appeal for the surface or sub-surface tax assessments, 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 an additional 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 100% of the contingency of the Land and Building Tax obligation of the East Jabung PSC.

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