



PAN ORIENT ENERGY CORP.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016
(Unaudited)**

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

(\$000s)	June 30 2016	December 31 2015
Assets		
Current		
Cash and cash equivalents	41,197	66,170
Accounts receivable	846	1,369
Taxes receivable (note 7)	6,111	12,507
	48,154	80,046
Deposits	4,191	4,259
Investment in joint venture (note 3)	32,967	35,088
Property, plant and equipment (note 4)	549	581
Exploration and evaluation (note 5)	185,456	190,322
Total assets	271,317	310,296
Liabilities		
Current		
Accounts payable and accrued liabilities	1,263	4,678
Taxes payable (note 7)	-	467
	1,263	5,145
Deferred tax liabilities	9,016	10,165
Decommissioning provision (note 6)	1,453	1,335
Total liabilities	11,732	16,645
Shareholders' equity		
Share capital (note 8)	91,816	113,770
Contributed surplus	25,574	25,316
Non-controlling interest	17,146	17,169
Accumulated other comprehensive income	19,090	27,625
Retained earnings	105,959	109,771
Total shareholders' equity	259,585	293,651
Total liabilities and shareholders' equity	271,317	310,296

Subsequent event (note 7)

Commitments (note 11)

Contingencies (note 12)

See accompanying notes to the condensed interim consolidated financial statements.

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

(\$000s, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Revenue				
Oil	-	-	-	809
Royalties	-	-	-	(38)
Interest	30	39	76	87
	30	39	76	858
Expenses				
Loss from investment in joint venture (note 3)	393	290	951	583
Production and operating	-	-	-	257
Transportation	-	-	-	24
Depletion and depreciation	15	31	32	1,006
Exploration (note 5)	814	133	928	294
General and administrative	737	1,195	1,387	2,421
Stock-based compensation	98	283	258	1,109
Impairment	-	587	-	2,329
Foreign exchange (gain) loss	(22)	154	1,093	(568)
Gain on disposition of Thailand interest	-	-	-	(38,471)
	2,035	2,673	4,649	(31,016)
Income (loss) before taxes and non-controlling interest	(2,005)	(2,634)	(4,573)	31,874
Taxes				
Current income tax expense (recovery)	(170)	456	411	456
Deferred income tax expense (recovery)	(223)	294	(1,149)	860
	(393)	750	(738)	1,316
Net income (loss)	(1,612)	(3,384)	(3,835)	30,558
Other comprehensive income (loss)				
Foreign exchange gain (loss) on translation of foreign operations	(379)	(3,273)	(7,432)	10,499
Foreign exchange loss on translation of joint venture	(30)	(1,798)	(1,103)	(1,362)
Total other comprehensive income (loss)	(409)	(5,071)	(8,535)	9,137
Total comprehensive income (loss)	(2,021)	(8,455)	(12,370)	39,695
Net income (loss) attributable to:				
Common shareholders	(1,591)	(3,248)	(3,812)	30,692
Non-controlling interest	(21)	(136)	(23)	(134)
Net income (loss)	(1,612)	(3,384)	(3,835)	30,558
Total comprehensive income (loss) attributable to:				
Common shareholders	(2,000)	(8,319)	(12,347)	39,829
Non-controlling interest	(21)	(136)	(23)	(134)
Total comprehensive income (loss)	(2,021)	(8,455)	(12,370)	39,695
Net income (loss) per share attributable to common shareholders (note 8)				
Basic and diluted	\$ (0.03)	\$ (0.06)	\$ (0.07)	\$ 0.54

See accompanying notes to the condensed interim consolidated financial statements.

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

(\$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)	-	-	(134)	-	30,692	30,558
Stock-based compensation expense	-	1,109	-	-	-	1,109
Capitalized stock-based compensation	-	13	-	-	-	13
Normal course issuer bid	(2,758)	747	-	-	-	(2,011)
Other comprehensive income	-	-	-	9,137	-	9,137
Disposition of Thailand interest	-	-	-	(8,486)	-	(8,486)
Balance as at June 30, 2015	114,898	24,231	17,175	14,831	111,410	282,545
Balance as at December 31, 2015	113,770	25,316	17,169	27,625	109,771	293,651
Net loss	-	-	(23)	-	(3,812)	(3,835)
Stock-based compensation expense	-	258	-	-	-	258
Special distribution	(21,954)	-	-	-	-	(21,954)
Other comprehensive loss	-	-	-	(8,535)	-	(8,535)
Balance as at June 30, 2016	91,816	25,574	17,146	19,090	105,959	259,585

See accompanying notes to the condensed interim consolidated financial statements.

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

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Cash Provided From (Used in)				
Operating Activities				
Net income (loss)	(1,612)	(3,384)	(3,835)	30,558
Adjustments for non-cash items:				
Deferred tax expense (recovery)	(223)	294	(1,149)	860
Depletion and depreciation	15	31	32	1,006
Stock-based compensation	98	283	258	1,109
Accretion	4	6	9	16
Loss from investment in joint venture (note 3)	393	290	951	583
Impairment	-	587	-	2,329
Gain on disposition of Thailand interest	-	-	-	(38,471)
Changes in non-cash working capital	3,681	(331)	5,893	(724)
Cash flow from (used in) operating activities	2,356	(2,224)	2,159	(2,734)
Investing Activities				
Property, plant and equipment	-	-	-	(62)
Exploration and evaluation	(837)	(2,816)	(2,463)	(4,618)
Net proceeds on disposition of Thailand interest	-	-	-	52,028
Cash and cash equivalents disposed on sale of Thailand interest	-	-	-	(5,081)
Dispositions	-	9,764	105	9,764
Deposits	(46)	388	68	(108)
Change in amounts due from Joint Venture	87	(16)	67	(44)
Changes in non-cash working capital	(1,943)	414	(2,856)	(142)
Cash flow from (used in) investing activities	(2,739)	7,734	(5,079)	51,737
Financing Activities				
Special distribution	-	-	(21,954)	-
Normal course issuer bid	-	(1,809)	-	(2,011)
Cash flow used in financing activities	-	(1,809)	(21,954)	(2,011)
Change in cash and cash equivalents	(383)	3,701	(24,874)	46,992
Effect of foreign exchange on cash and cash equivalents	6	(1,277)	(99)	(699)
Cash and cash equivalents, beginning of period	41,574	70,726	66,170	26,857
Cash and cash equivalents, end of period	41,197	73,150	41,197	73,150

See accompanying notes to the condensed interim consolidated financial statements.

Pan Orient Energy Corp.
Notes to the Condensed interim consolidated financial statements
(Expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

1) CORPORATE INFORMATION

Pan Orient Energy Corp. (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 3).

2) BASIS OF PRESENTATION

Statement of Compliance

The interim condensed consolidated financial statements for the Company as at June 30, 2016 and for the three and six months ended June 30, 2016 and 2015 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2015. The following disclosures are incremental to those included with the annual consolidated financial statements. Certain disclosures that are normally required in the notes to the annual consolidated financial statements have been condensed or omitted. The interim condensed consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements.

The interim condensed consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with the International Accounting Standards 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements were approved by the Company's Board of Directors on August 16, 2016.

Pan Orient Energy Corp.
Notes to the Condensed interim consolidated financial statements
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3) 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. 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.

(\$000s)	June 30	
	2016	2015
Investment in joint venture, beginning of period	35,088	-
Investment in joint venture retained	-	38,587
Change in amounts due from joint venture	(67)	44
Net loss from joint venture, after tax	(951)	(583)
Foreign currency translation	(1,103)	(1,362)
Investment in joint venture, end of period	32,967	36,686

Pan Orient Energy (Siam) Ltd. Summarized Financial Information (\$000s)	June 30	
	2016	2015
Current assets	5,319	3,645
Non-current assets	65,578	77,824
Current liabilities	(462)	(4,052)
Non-current liabilities	(18,614)	(21,988)
Net assets	51,821	55,429
Pan Orient's Investment in Joint Venture		
Pan Orient's share of net assets	25,913	27,718
Fair value adjustment on initial recognition	8,924	8,924
Amortization of fair value adjustment on initial recognition	(511)	-
Change in amounts due from Joint Venture, since initial recognition	(1,359)	44
Investment in joint venture	32,967	36,686

Pan Orient Energy Corp.
Notes to the Condensed interim consolidated financial statements
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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)	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Oil revenue	2,026	3,355	3,837	5,940
Royalties	(101)	(168)	(191)	(292)
Interest income	10	9	11	11
Total net revenue	1,935	3,196	3,657	5,659
Production and operating	437	841	1,036	1,533
Transportation	66	81	139	149
Depletion and depreciation	2,344	3,223	5,132	6,005
General and administrative	359	383	735	835
Foreign exchange loss	-	-	-	2,954
Total expenses	3,206	4,528	7,042	11,476
Loss before income taxes	(1,271)	(1,332)	(3,385)	(5,817)
Current income tax	1	1	1	1
Deferred income tax recovery	(631)	(753)	(1,793)	(1,403)
Total tax recovery	(630)	(752)	(1,792)	(1,402)
Net loss	(641)	(580)	(1,593)	(4,415)
Other comprehensive income (loss)	(60)	(3,597)	(2,206)	2,250
Total comprehensive loss	(701)	(4,177)	(3,799)	(2,165)
Pan Orient's share of income (loss), consolidated into financial statements, up to February 1, 2015 (100% net to Pan Orient)				
Pan Orient's share of net loss	-	-	-	(296)
Pan Orient's share of other comprehensive income	-	-	-	4,975
Pan Orient's share of income (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	(321)	(290)	(797)	(583)
Amortization of fair value adjustment	(72)	-	(154)	-
Net loss from Joint Venture	(393)	(290)	(951)	(583)
Pan Orient's share of other comprehensive loss	(30)	(1,798)	(1,103)	(1,362)

4) PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the carrying amount of property, plant and equipment as at June 30, 2016 is set out below.

(\$000s)	Indonesia	Canada	Total
Cost			
At December 31, 2015	273	1,348	1,621
Foreign currency translation	(3)	-	(3)
At June 30, 2016	270	1,348	1,618
Accumulated depletion and depreciation			
At December 31, 2015	(272)	(768)	(1,040)
Depletion and depreciation	(1)	(31)	(32)
Foreign currency translation	3	-	3
At June 30, 2016	(270)	(799)	(1,069)
Net book value			
At December 31, 2015	1	580	581
At June 30, 2016	-	549	549

Pan Orient Energy Corp.
Notes to the Condensed interim consolidated financial statements
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5) EXPLORATION AND EVALUATION

A reconciliation of the carrying amount of exploration and evaluation (E&E) assets as at June 30, 2016 is set out below.

(\$000s)	Indonesia	Canada	Total
At December 31, 2015	109,165	81,157	190,322
Additions	907	1,556	2,463
Changes in decommissioning provision	-	111	111
Dispositions	-	(105)	(105)
Foreign currency translation	(7,335)	-	(7,335)
At June 30, 2016	102,737	82,719	185,456

General and administrative costs totaling \$1.0 million (June 30, 2015 - \$1.0 million) and stock-based compensation totaling nil (June 30, 2015 - \$13 thousand) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

In the second quarter of 2016, \$814 thousand of legal and arbitration costs incurred in Indonesia for a dispute with a vendor over work performed at the Citarum PSC was expensed as Exploration expense.

As at June 30, 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.

6) DECOMMISSIONING PROVISION

(\$000s)	Indonesia	Canada	Total
Decommissioning provision, beginning of period	42	1,293	1,335
Revisions to obligations	-	111	111
Accretion	-	9	9
Foreign currency translation	(2)	-	(2)
Decommissioning provision, end of period	40	1,413	1,453

The decommissioning provision is based on the Company's net ownership of wells and facilities in 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 (June 30, 2015 - \$1.9 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 1% at June 30, 2016 (June 30, 2015 - 2%).

Pan Orient Energy Corp.
Notes to the Condensed interim consolidated financial statements
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7) TAXES

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

A summary of Indonesian taxes payable at June 30, 2016 is as follows:

(\$000s)	June 30, 2016
Indonesian taxes payable, beginning of period	467
Foreign currency translation	(28)
Taxes paid	(439)
Indonesian taxes payable, end of period	-

Income tax paid in Indonesia relates to taxes arising on the 2015 farm-out of the East Jabung PSC.

A summary of Canadian taxes receivable at June 30, 2016 is as follows:

(\$000s)	June 30, 2016
Canadian taxes receivable, beginning of period	12,507
Tax refund received	(5,985)
Subtotal . prior year taxes receivable	6,522
Current income tax expense	(411)
Canadian taxes receivable (net), end of period	6,111

During the six months ended June 30, 2016 the Company received a refund of \$6.0 million of Canadian taxes. An additional refund of \$6.4 million was subsequently received in July 2016.

8) SHARE CAPITAL

(a) Authorized

Unlimited Common Voting Shares
 Unlimited Preferred Shares

(b) Issued and Outstanding Class A Common Shares

Common Shares	Shares Outstanding	Amount (\$000s)
Balance as at December 31, 2015	54,885,407	\$ 113,770
Special distribution	-	(21,954)
Balance as at June 30, 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 will be made between March 28, 2016 and March 28, 2017.

Pan Orient Energy Corp.
Notes to the Condensed interim consolidated financial statements
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(c) Options to Purchase Common Shares

	Number of Options	Weighted Average Exercise Price (\$)
Options outstanding at December 31, 2015	5,166,000	2.09
Option price adjustment	-	(0.40)
Forfeited	(175,000)	1.52
Options outstanding at June 30, 2016	4,991,000	1.69

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 June 30, 2016				Options Exercisable at June 30, 2016		
Exercise Price ⁽¹⁾ (\$)	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	4.17	83,333	0.89	4.17
1.01 . 1.50	2,195,000	1.43	3.60	1,463,334	1.43	3.60
1.51 . 2.00	1,011,000	1.52	2.42	1,011,000	1.52	2.42
2.01 . 2.57	1,535,000	2.32	1.18	1,535,000	2.32	1.18
0.89 . 2.57	4,991,000	1.69	2.65	4,092,667	1.77	2.41

(1) Exercise price includes the \$0.40 reduction per option and represents the adjusted exercise price at June 30, 2016.

(d) Share Appreciation Rights

	Number of SARs	Weighted Average Reference Price (\$)
SARs outstanding at December 31, 2015	400,000	4.15
SARs price adjustment	-	(0.40)
Forfeited	(400,000)	(3.75)
SARs outstanding at June 30, 2016	-	-

During the first quarter of 2016, all outstanding Share Appreciation Rights were adjusted for the special distribution and forfeited unexercised.

Pan Orient Energy Corp.
Notes to the Condensed interim consolidated financial statements
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(e) Andora Energy Corporation

i) Issued and Outstanding Class A Common Shares

As at June 30, 2016 Andora had 100.1 million (June 30, 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, 2015 and June 30, 2016		9,552,035	0.60
Options Outstanding at June 30, 2016			
Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
0.60	9,552,035	0.60	0.17
Options Exercisable at June 30, 2016			
Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)	
9,552,035	0.60	0.17	

(f) Earnings 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:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Weighted average common shares . basic and diluted	54,885,407	56,401,835	54,885,407	56,401,835

Options to purchase 4,991,000 common shares outstanding at June 30, 2016 (June 30, 2015 . 5,406,000) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

9) FINANCIAL INSTRUMENTS

As at June 30 the following financial instruments were denominated in currencies other than the Canadian dollar:

	June 30, 2016		December 31, 2015	
	US dollar (\$000s)	Indonesia Rupiah (000s)	US dollar (\$000s)	Indonesia Rupiah (000s)
Cash and cash equivalents	22,942	515,070	38,930	828,904
Accounts receivable	23	-	24	-
Deposits	321	39,220,971	585	39,322,758
Accounts payable and accrued liabilities	(190)	(2,341,215)	(2,635)	(5,230,002)
Taxes payable	-	-	(337)	-
Net exposure in foreign currency	23,096	37,394,826	36,567	34,921,660
Net exposure in Canadian dollars ⁽¹⁾ (\$000s)	30,044	3,690	50,604	3,529

⁽¹⁾ Translated at June 30, 2016 and 2015 exchange rates.

Pan Orient Energy Corp.
Notes to the Condensed interim consolidated financial statements
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(Unaudited)

10) 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 (see note 3); 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 period ended June 30:

As at: (\$000s)	June 30, 2016				December 31, 2015			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Property, plant and equipment	-	-	549	549	-	1	580	581
Exploration and evaluation	-	102,737	82,719	185,456	-	109,165	81,157	190,322
Other assets	33,049	4,653	47,610	85,312	35,109	5,636	78,648	119,393
Total assets	33,049	107,390	130,878	271,317	35,109	114,802	160,385	310,296

Six Months Ended: (\$000s)	June 30, 2016				June 30, 2015			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Oil revenue	-	-	-	-	809	-	-	809
Royalties	-	-	-	-	(38)	-	-	(38)
Interest revenue	-	-	76	76	1	-	86	87
Total net revenue	-	-	76	76	772	-	86	858
Loss from joint venture	951	-	-	951	583	-	-	583
Production and operating	-	-	-	-	257	-	-	257
Transportation	-	-	-	-	24	-	-	24
Depletion and depreciation	-	1	31	32	943	21	42	1,006
Exploration	-	928	-	928	-	294	-	294
General and administrative	14	263	1,110	1,387	190	786	1,445	2,421
Stock based compensation	-	-	258	258	-	-	1,109	1,109
Impairment	-	-	-	-	-	2,329	-	2,329
Foreign exchange (gain) loss	-	(10)	1,103	1,093	8	140	(716)	(568)
Gain on disposition of Thailand interests	-	-	-	-	-	-	(38,471)	(38,471)
Total expenses	965	1,182	2,502	4,649	2,005	3,570	(36,591)	(31,016)
Current income tax	-	-	411	411	-	456	-	456
Deferred income tax expense (recovery)	-	-	(1,149)	(1,149)	(340)	-	1,200	860
Total taxes	-	-	(738)	(738)	(340)	456	1,200	1,316
Net income (loss) attributable to:								
Common shareholders	(965)	(1,182)	(1,665)	(3,812)	(893)	(4,026)	35,611	30,692
Non-controlling interest	-	-	(23)	(23)	-	-	(134)	(134)
Total net income (loss)	(965)	(1,182)	(1,688)	(3,835)	(893)	(4,026)	35,477	30,558
Capital expenditures	-	907	1,556	2,463	60	1,553	3,067	4,680

Pan Orient Energy Corp.
Notes to the Condensed interim consolidated financial statements
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(Unaudited)

Three Months Ended: (\$000s)	June 30, 2016				June 30, 2015			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Oil revenue	-	-	-	-	-	-	-	-
Royalties	-	-	-	-	-	-	-	-
Interest revenue	-	-	30	30	-	-	39	39
Total net revenue	-	-	30	30	-	-	39	39
Loss from joint venture	393	-	-	393	290	-	-	290
Depletion and depreciation	-	-	15	15	-	10	21	31
Exploration	-	814	-	814	-	133	-	133
General and administrative	6	93	638	737	-	329	866	1,195
Stock based compensation	-	-	98	98	-	-	283	283
Impairment	-	-	-	-	-	587	-	587
Foreign exchange (gain) loss	-	62	(84)	(22)	-	360	(206)	154
Total expenses	399	969	667	2,035	290	1,419	964	2,673
Current income tax (recovery)	-	-	(170)	(170)	-	456	-	456
Deferred income tax expense (recovery)	-	-	(223)	(223)	-	-	294	294
Total taxes	-	-	(393)	(393)	-	456	294	750
Net loss attributable to:								
Common shareholders	(399)	(969)	(223)	(1,591)	(290)	(1,875)	(1,083)	(3,248)
Non-controlling interest	-	-	(21)	(21)	-	-	(136)	(136)
Total net loss	(399)	(969)	(244)	(1,612)	(290)	(1,875)	(1,219)	(3,384)
Capital expenditures	-	352	485	837	-	1,123	1,693	2,816

11) COMMITMENTS

As at June 30, 2016 the Company's estimated outstanding capital commitments are as follows:

Country and Concession Name	Remaining Work Program Commitment	Obligation Ending	Estimated Net Financial Commitment
			CAD ⁽¹⁾ (\$000s)
Thailand Joint Venture			
Concession L53	▪ Surface reservation fee ⁽²⁾	January 2021	-
Total Thailand			-
Indonesia			
East Jabung ^{(3) (4)}	▪ Geological studies	November 2016	90
	▪ Drill two exploration wells	November 2016	1,902
Total Indonesia			1,992
Canadian Heavy Oil Sands – Andora Energy Corporation			
Sawn Lake, Alberta	▪ Natural gas pipeline tie-in and tariff	2016	73
	▪ Natural gas pipeline tie-in and tariff	2017	147
	▪ Natural gas pipeline tie-in and tariff	October 2018	122
Total Canada			342
			2,334

(1) Translated at June 30, 2016 exchange rates from the source currency in which 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" for up to five years, with the payment of a surface reservation fee of \$0.4 million (net to Pan Orient) for each year the Company wishes 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 year from January 8, 2016 to January 7, 2017 has been paid and is included in the Company's Investment in Joint Venture in the consolidated statement of financial position.

(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. The operator may not complete all of these commitments by the end of the period and plans to apply for an extension from the Government of Indonesian ("GOI") to complete these commitments. 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 its Company's existing cash balance.

12) 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 \$7.7 million when translated at the June 30, 2016 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 \$10.5 million, \$9.8 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 \$3.9 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 \$86 thousand, 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.



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