



**PAN ORIENT ENERGY CORP.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019**

**(Unaudited)**

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

| (\$000s)  | June 30<br>2019 | December 31<br>2018 |
|---|-----------------|---------------------|
| <b>Assets</b>                                     |                 |                     |
| <b>Current</b>                                    |                 |                     |
| Cash and cash equivalents                         | 29,278          | 31,662              |
| Accounts receivable                               | 496             | 4,043               |
|   | <b>29,774</b>   | <b>35,705</b>       |
| <b>Deposits</b>                                   | <b>598</b>      | 593                 |
| <b>Investment in joint venture</b> (note 4)       | <b>37,060</b>   | 34,504              |
| <b>Right-of-use assets</b> (note 5)               | <b>177</b>      | -                   |
| <b>Property, plant and equipment</b> (note 6)     | <b>414</b>      | 433                 |
| <b>Exploration and evaluation</b> (note 7)        | <b>103,976</b>  | 102,482             |
| <b>Total assets</b>                               | <b>171,999</b>  | <b>173,717</b>      |
| <b>Liabilities</b>                                |                 |                     |
| <b>Current</b>                                    |                 |                     |
| Accounts payable and accrued liabilities          | 1,075           | 2,876               |
| Lease liabilities (note 8)                        | 133             | -                   |
| Decommissioning provision (note 9)                | 262             | 283                 |
|   | <b>1,470</b>    | <b>3,159</b>        |
| <b>Lease liabilities</b> (note 8)                 | <b>46</b>       | -                   |
| <b>Deferred tax liabilities</b>                   | <b>5,620</b>    | 6,699               |
| <b>Decommissioning provision</b> (note 9)         | <b>2,148</b>    | 1,895               |
| <b>Total liabilities</b>                          | <b>9,284</b>    | <b>11,753</b>       |
| <b>Shareholders' equity</b>                       |                 |                     |
| Share capital (note 10)                           | 91,745          | 91,851              |
| Contributed surplus                               | 27,481          | 26,965              |
| Non-controlling interest                          | 17,033          | 16,808              |
| Accumulated other comprehensive income            | 4,256           | 4,578               |
| Retained earnings                                 | 22,200          | 21,762              |
| <b>Total shareholders' equity</b>                 | <b>162,715</b>  | <b>161,964</b>      |
| <b>Total liabilities and shareholders' equity</b> | <b>171,999</b>  | <b>173,717</b>      |
| <b>Segmented information</b> (note 12)            |                 |                     |
| <b>Commitments</b> (note 13)                      |                 |                     |

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 |              | Six Months Ended |              |
|---|--------------------|--------------|------------------|--------------|
|   | June 30            |              | June 30          |              |
|   | 2019               | 2018         | 2019             | 2018         |
| <b>Other income</b>   |                    |              |                  |              |
| Income (loss) from investment in joint venture (note 4)                             | 1,699              | (97)         | 2,353            | (288)        |
| <b>Expenses</b>   |                    |              |                  |              |
| Amortization and depreciation   | 38                 | 11           | 76               | 20           |
| Exploration and evaluation expense  | -                  | 26           | -                | 27           |
| Decommissioning recovery  | -                  | -            | (12)             | -            |
| General and administrative  | 543                | 553          | 1,414            | 1,161        |
| Finance income  | (86)               | (136)        | (153)            | (238)        |
| Stock-based compensation  | 139                | 132          | 532              | 429          |
| Foreign exchange loss (gain)  | 524                | (478)        | 913              | (1,090)      |
|   | 1,158              | 108          | 2,770            | 309          |
| <b>Income (loss) before taxes and non-controlling interest</b>                      | <b>541</b>         | <b>(205)</b> | <b>(417)</b>     | <b>(597)</b> |
| <b>Taxes</b>  |                    |              |                  |              |
| Deferred income tax recovery  | (995)              | (23)         | (1,080)          | (52)         |
| <b>Net income (loss)</b>  | <b>1,536</b>       | <b>(182)</b> | <b>663</b>       | <b>(545)</b> |
| <b>Other comprehensive income (loss)</b>  |                    |              |                  |              |
| Foreign exchange gain (loss) on translation of foreign operations                   | (404)              | 240          | (695)            | 588          |
| Foreign exchange gain (loss) on translation of joint venture (note 4)               | 238                | (926)        | 373              | 980          |
| <b>Total other comprehensive income (loss)</b>                                      | <b>(166)</b>       | <b>(686)</b> | <b>(322)</b>     | <b>1,568</b> |
| <b>Total comprehensive income (loss)</b>  | <b>1,370</b>       | <b>(868)</b> | <b>341</b>       | <b>1,023</b> |
| <b>Net income (loss) attributable to:</b>   |                    |              |                  |              |
| Common shareholders   | 1,287              | (151)        | 438              | (489)        |
| Non-controlling interest  | 249                | (31)         | 225              | (56)         |
| <b>Net income (loss)</b>  | <b>1,536</b>       | <b>(182)</b> | <b>663</b>       | <b>(545)</b> |
| <b>Total comprehensive income (loss) attributable to:</b>                           |                    |              |                  |              |
| Common shareholders   | 1,121              | (837)        | 116              | 1,079        |
| Non-controlling interest  | 249                | (31)         | 225              | (56)         |
| <b>Total comprehensive income (loss)</b>  | <b>1,370</b>       | <b>(868)</b> | <b>341</b>       | <b>1,023</b> |
| <b>Net income (loss) per share attributable to common shareholders</b><br>(note 10) |                    |              |                  |              |
| Basic and diluted   | \$ 0.02            | \$ -         | \$ 0.01          | \$ (0.01)    |

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<br>Capital | Contributed<br>Surplus | NCI    | AOCI  | Retained<br>Earnings | Total   |
|--------------------------------------|------------------|------------------------|--------|-------|----------------------|---------|
| Balance as at December 31, 2017      | 91,851           | 26,307                 | 16,914 | 1,238 | 21,802               | 158,112 |
| Net loss                             | -                | -                      | (56)   | -     | (489)                | (545)   |
| Stock-based compensation expense     | -                | 429                    | -      | -     | -                    | 429     |
| Capitalized stock-based compensation | -                | 9                      | -      | -     | -                    | 9       |
| Other comprehensive income           | -                | -                      | -      | 1,568 | -                    | 1,568   |
| Balance as at June 30, 2018          | 91,851           | 26,745                 | 16,858 | 2,806 | 21,313               | 159,573 |
| Balance as at December 31, 2018      | 91,851           | 26,965                 | 16,808 | 4,578 | 21,762               | 161,964 |
| Net income                           | -                | -                      | 225    | -     | 438                  | 663     |
| Stock-based compensation expense     | -                | 532                    | -      | -     | -                    | 532     |
| Normal course issuer bid             | (106)            | (16)                   | -      | -     | -                    | (122)   |
| Other comprehensive loss             | -                | -                      | -      | (322) | -                    | (322)   |
| Balance as at June 30, 2019          | 91,745           | 27,481                 | 17,033 | 4,256 | 22,200               | 162,715 |

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<br>June 30 |               | Six Months Ended<br>June 30 |                |
|--|-------------------------------|---------------|-----------------------------|----------------|
|  | 2019                          | 2018          | 2019                        | 2018           |
| <b>Cash Provided From (Used in)</b>                            |                               |               |                             |                |
| <b>Operating Activities</b>                                    |                               |               |                             |                |
| Net income (loss)  | 1,536                         | (182)         | 663                         | (545)          |
| Adjustments for non-cash items:                                |                               |               |                             |                |
| Deferred income tax recovery                                   | (995)                         | (23)          | (1,080)                     | (52)           |
| Amortization and depreciation                                  | 38                            | 11            | 76                          | 20             |
| Stock-based compensation                                       | 139                           | 132           | 532                         | 429            |
| Accretion  | 14                            | 12            | 35                          | 23             |
| Loss (income) from investment in joint venture (note 3)        | (1,699)                       | 97            | (2,353)                     | 288            |
| Decommissioning recovery                                       | -                             | -             | (12)                        | -              |
| Unrealized foreign exchange loss (gain)                        | 532                           | (442)         | 987                         | (1,088)        |
| Changes in non-cash working capital                            | 593                           | 2,942         | (1,139)                     | (1,198)        |
| Cash flow from (used in) operating activities                  | 158                           | 2,547         | (2,291)                     | (2,123)        |
| <b>Investing Activities</b>                                    |                               |               |                             |                |
| Exploration and evaluation                                     | (1,213)                       | (1,819)       | (1,918)                     | (2,122)        |
| Dispositions of exploration and evaluation assets              | -                             | -             | -                           | 133            |
| Changes in non-cash working capital                            | 163                           | (816)         | 3,048                       | (2,219)        |
| Cash flow from (used in) investing activities                  | (1,050)                       | (2,635)       | 1,130                       | (4,208)        |
| <b>Financing Activities</b>                                    |                               |               |                             |                |
| Normal course issuer bid                                       | (122)                         | -             | (122)                       | -              |
| Finance lease payments   | (28)                          | -             | (54)                        | -              |
| Cash flow used in financing activities                         | (150)                         | -             | (176)                       | -              |
| <b>Change in cash and cash equivalents</b>                     | <b>(1,042)</b>                | <b>(88)</b>   | <b>(1,337)</b>              | <b>(6,331)</b> |
| <b>Effect of foreign exchange on cash and cash equivalents</b> | <b>(526)</b>                  | <b>291</b>    | <b>(1,047)</b>              | <b>936</b>     |
| <b>Cash and cash equivalents, beginning of period</b>          | <b>30,846</b>                 | <b>32,064</b> | <b>31,662</b>               | <b>37,662</b>  |
| <b>Cash and cash equivalents, end of period</b>                | <b>29,278</b>                 | <b>32,267</b> | <b>29,278</b>               | <b>32,267</b>  |

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)*

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**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.

Pan Orient is an oil and natural gas company based in Calgary, Alberta, with properties onshore Indonesia and interests in Pan Orient Energy (Siam) Ltd. which has properties onshore Thailand, and interests in Andora Energy Corporation ("Andora") which has properties in northern Alberta, Canada.

**2) BASIS OF PRESENTATION**

*Statement of Compliance*

The interim condensed consolidated financial statements for the Company should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2018. 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 20, 2019.

**3) ADOPTION OF NEW ACCOUNTING STANDARDS**

*IFRS 16 – Leases*

IFRS 16 "Leases" is effective for periods ending on or after January 1, 2019. This standard introduces a single recognition and measurement model for lessees, which requires recognition of lease assets and lease obligations on the statement of financial position. The Company adopted this standard using the modified retrospective approach. Accordingly, comparative information in the Company's financial statements is not restated. Under the modified retrospective approach, the Company can choose to not recognize leases whose term ends within 12 months of initial application, as well as not recognize leases which assets are considered to be a low dollar value. Lease payments associated with these leases are recognized as an expense as incurred over the lease term. The Company's Thailand joint venture adopted this standard and the effect on adoption and subsequent measurements are included in the profit or loss from investment in joint venture (Note 4).

On adoption, lease liabilities were measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate of 8% on January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability.

The impacts of the adoption of IFRS 16 as at January 1, 2019 are as follows:

**Condensed consolidated statement of financial position adjustments**

| (\$000s)                                | <b>As reported as at<br/>December 31, 2018</b> | <b>Effect on<br/>adoption</b> | <b>Restated balance as at<br/>January 1, 2019</b> |
|---|--|-------------------------------|---|
| Right-of-use assets                     | -  | 233                           | 233   |
| Lease liabilities – current portion     | -  | (119)                         | (119)   |
| Lease liabilities – non-current portion | -  | (114)                         | (114)   |
| <b>Total</b>                            | <b>-</b>                                       | <b>-</b>                      | <b>-</b>  |

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

**4) INVESTMENT IN JOINT VENTURE**

The Company holds a 50.01% interest in Pan Orient Energy (Siam) Ltd., which is considered a Joint Venture under IFRS and is accounted for using the equity method. 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 or loss. The carrying amount of the Company's Investment in Joint Venture is as follows:

| <b>Six months ended:</b>   | <b>June 30</b> |                    |
|--|----------------|--------------------|
| (\$000s)   | <b>2019</b>    | <b>2018</b>        |
| Investment in joint venture, beginning of period                         | 34,504         | 32,185             |
| Change in amounts due from joint venture                                 | (170)          | (73)               |
| Net income (loss) from joint venture, after tax                          | 2,353          | (288)              |
| Foreign currency translation   | 373            | 980                |
| Investment in joint venture, end of period                               | 37,060         | 32,804             |
| <hr/>  |                |                    |
| Pan Orient Energy (Siam) Ltd. <sup>(1)</sup>                             |                |                    |
| Summarized Financial Information   | <b>June 30</b> | <b>December 31</b> |
| (\$000s)   | <b>2019</b>    | <b>2018</b>        |
| Current assets   | 26,341         | 15,562             |
| Non-current assets   | 68,348         | 65,497             |
| Current liabilities  | (4,574)        | (3,645)            |
| Non-current liabilities  | (25,747)       | (19,492)           |
| Net assets   | 64,368         | 57,922             |
| <hr/>  |                |                    |
| <b>Pan Orient's Investment in Joint Venture</b>                          |                |                    |
| Pan Orient's 50.01% share of net assets of Pan Orient Energy (Siam) Ltd. | 32,187         | 28,965             |
| Fair value adjustment on initial recognition                             | 8,924          | 8,924              |
| Amortization of fair value adjustment on initial recognition             | (2,091)        | (1,592)            |
| Change in amounts due from joint venture, since initial recognition      | (1,960)        | (1,793)            |
| Investment in joint venture  | 37,060         | 34,504             |

(1) Represents 100% of net assets of Pan Orient Energy (Siam) Ltd. and the Company has 50.01% equity interest in Pan Orient Energy (Siam) Ltd.

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

The Company's share of income or loss from the joint venture is as follows:

| Pan Orient Energy (Siam) Ltd. <sup>(1)</sup><br>Summarized Statement of Comprehensive Income<br>(\$000s) | Three Months Ended<br>June 30 |         | Six Months Ended<br>June 30 |       |
|--|-------------------------------|---------|-----------------------------|-------|
|  | 2019                          | 2018    | 2019                        | 2018  |
| Oil revenue  | 15,910                        | 3,707   | 23,221                      | 6,179 |
| Royalties  | (833)                         | (184)   | (1,189)                     | (304) |
| Interest income  | 42                            | 30      | 43                          | 31    |
| Total net revenue  | 15,119                        | 3,553   | 22,075                      | 5,906 |
| Production and operating   | 954                           | 576     | 1,852                       | 1,095 |
| Transportation   | 477                           | 79      | 682                         | 136   |
| Depletion, depreciation and amortization   | 5,128                         | 2,323   | 7,618                       | 4,022 |
| Exploration expense  | -                             | 2       | -                           | 104   |
| General and administrative   | 444                           | 444     | 846                         | 847   |
| Foreign exchange loss (gain)   | (41)                          | 1       | (86)                        | (3)   |
| Total expenses   | 6,962                         | 3,425   | 10,912                      | 6,201 |
| Income (loss) before income taxes  | 8,157                         | 128     | 11,163                      | (295) |
| Deferred income tax expense (recovery)   | 4,060                         | 30      | 5,460                       | (210) |
| Net income (loss)  | 4,097                         | 98      | 5,703                       | (85)  |
| Other comprehensive income (loss)  | 474                           | (1,853) | 746                         | 1,957 |
| Total comprehensive income (loss)  | 4,571                         | (1,755) | 6,449                       | 1,872 |
| <b>Pan Orient's share of loss from joint venture under equity method,<br/>(50.01% net to Pan Orient)</b> |                               |         |                             |       |
| Pan Orient's share of net income (loss)  | 2,049                         | 50      | 2,852                       | (42)  |
| Amortization of fair value adjustment  | (350)                         | (147)   | (499)                       | (246) |
| Net income (loss) from joint venture   | 1,699                         | (97)    | 2,353                       | (288) |

(1) Represents 100% of comprehensive income or loss of Pan Orient Energy (Siam) Ltd. and the Company has 50.01% equity interest in Pan Orient Energy (Siam) Ltd.

**5) RIGHT-OF-USE ASSETS**

| (\$000s)                             | Equipment    |         | Total |
|--------------------------------------|--------------|---------|-------|
|                                      | Office lease | Rentals |       |
| Initial recognition, January 1, 2019 | 111          | 122     | 233   |
| Amortization                         | (35)         | (22)    | (57)  |
| Foreign currency translation         | -            | 1       | 1     |
| At June 30, 2019                     | 76           | 101     | 177   |

**6) PROPERTY, PLANT AND EQUIPMENT**

A reconciliation of the carrying amount of property, plant and equipment as at June 30, 2019 is set out below.

| (\$000s)   | Indonesia | Canada | Total   |
|--|-----------|--------|---------|
| <b>Cost</b>                                      |           |        |         |
| At December 31, 2018                             | 308       | 1,353  | 1,661   |
| At June 30, 2019                                 | 308       | 1,353  | 1,661   |
| <b>Accumulated amortization and depreciation</b> |           |        |         |
| At December 31, 2018                             | (308)     | (920)  | (1,228) |
| Amortization and depreciation                    | -         | (19)   | (19)    |
| At June 30, 2019                                 | (308)     | (939)  | (1,247) |
| <b>Net book value</b>                            |           |        |         |
| At December 31, 2018                             | -         | 433    | 433     |
| At June 30, 2019                                 | -         | 414    | 414     |



## 7) EXPLORATION AND EVALUATION

A reconciliation of the carrying amount of exploration and evaluation ("E&E") assets as at June 30, 2019 is set out below.

| (\$000s)                         | Indonesia | Canada | Total   |
|----------------------------------|-----------|--------|---------|
| At December 31, 2018             | 17,174    | 85,308 | 102,482 |
| Additions                        | 1,672     | 246    | 1,918   |
| Changes in decommissioning costs | (6)       | 243    | 237     |
| Foreign currency translation     | (661)     | -      | (661)   |
| At June 30, 2019                 | 18,179    | 85,797 | 103,976 |

During the six months ended June 30, 2019, general and administrative costs totaling \$0.3 million (June 30, 2018 – \$0.4 million) directly related to exploration and evaluation activities have been capitalized as E&E assets.

As at June 30, 2019 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. Andora is currently in the process of completing detailed engineering and assessing potential marketing arrangements.

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.

## 8) LEASE LIABILITIES

| (\$000s)                             | Total |
|--------------------------------------|-------|
| Initial recognition, January 1, 2019 | 233   |
| Lease payments                       | (54)  |
| Accretion                            | 9     |
| Foreign currency translation         | (9)   |
| At June 30, 2019                     | 179   |
| Less current portion                 | (133) |
| Non-current portion                  | 46    |

Lease liabilities were measured at the present value of the remaining lease payments discounted using an incremental borrowing rate of 8%.

## 9) DECOMMISSIONING PROVISION

A reconciliation of the Company's decommissioning provision at June 30, 2019 is set out below.

| (\$000s)                     | Indonesia | Canada | Total |
|------------------------------|-----------|--------|-------|
| At December 31, 2018         | 467       | 1,711  | 2,178 |
| Revisions to obligations     | (18)      | 243    | 225   |
| Accretion                    | 10        | 16     | 26    |
| Foreign currency translation | (19)      | -      | (19)  |
| At June 30, 2019             | 440       | 1,970  | 2,410 |
| Less current portion         | (262)     | -      | (262) |
| Non-current portion          | 178       | 1,970  | 2,148 |

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

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 \$3.5 million at June 30, 2019 (December 31, 2018 – \$3.6 million). Payments to settle the provision will be made over the operating lives of the underlying assets and are estimated to be incurred between 2019 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 1.68% at June 30, 2019 (December 31, 2018 – 2.23%).

**10) SHARE CAPITAL**

**(a) Authorized**

Unlimited Common Voting Shares  
Unlimited Preferred Shares

**(b) Issued and Outstanding Class A Common Shares**

|   | Shares<br>Issued | Shares<br>Outstanding | Amount<br>(\$000s) |
|---|------------------|-----------------------|--------------------|
| Common Shares                                   |                  |                       |                    |
| Balance as at December 31, 2018                 | 54,900,407       | 54,900,407            | \$ 91,851          |
| Shares purchased under normal course issuer bid | -                | (63,400)              | (106)              |
| Shares cancelled                                | (45,800)         | -                     | -                  |
| Balance as at June 30, 2019                     | 54,854,607       | 54,837,007            | 91,745             |

In May 2019, the Company renewed its normal course issuer bid through the TSX-V to continue the ability to purchase its common shares. Under the terms of the bid, Pan Orient is authorized to purchase, for cancellation, up to 4,504,064 of its common shares (10% of the public float), subject to a maximum of 1,098,008 common shares (2% of the 54,900,407 issued and outstanding common shares) during any 30 day period. The ability to purchase common shares under the bid commenced on May 16, 2019 and ends one year after commencement or on the earlier date on which Pan Orient has either acquired the maximum number of common shares specified above or otherwise decided not to make any further purchases.

During June 2019, the Company has purchased 63,400 shares under a normal course issuer bid at prices ranging from \$1.84 to \$2.13 per share, averaging \$1.92 per share. As of June 30, 2019 the Company has cancelled 45,800 of the shares purchased under the normal course issuer bid.

**(c) Options to Purchase Common Shares**

|  | Number of<br>Options <sup>(1)</sup> | Weighted<br>Average<br>Exercise Price<br>(\$) |
|--|-------------------------------------|---|
| Options outstanding at December 31, 2018 | 3,990,000                           | 1.26  |
| Granted                                  | 1,375,000                           | 1.90  |
| Options outstanding at June 30, 2019     | 5,365,000                           | 1.43  |

(1) These options are held by directors, senior management, employees and consultant of the Company.

| Options Outstanding at<br>June 30, 2019 |                      |  |   | Options Exercisable at<br>June 30, 2019 |  |   |
|---|----------------------|--|---|---|--|---|
| Exercise<br>Price (\$)                  | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price<br>(\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (years) | Number of<br>Options                    | Weighted<br>Average<br>Exercise<br>Price<br>(\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (years) |
| 0.89 – 1.00                             | 250,000              | 0.89   | 1.17  | 250,000                                 | 0.89   | 1.17  |
| 1.01 – 1.50                             | 3,740,000            | 1.29   | 1.86  | 3,220,000                               | 1.32   | 1.57  |
| 1.51 – 1.90                             | 1,375,000            | 1.90   | 4.72  | 458,337                                 | 1.90   | 4.72  |
| 0.89 – 1.90                             | 5,365,000            | 1.43   | 2.56  | 3,928,337                               | 1.36   | 1.92  |

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

**(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 three and six months ended June 30, 2019 and 2018 are as follows:

|   | <b>Six Months Ended</b> |             |
|---|-------------------------|-------------|
|   | <b>June 30</b>          |             |
|   | <b>2019</b>             | <b>2018</b> |
| Risk free interest rate (%)             | <b>2</b>                | 2           |
| Expected lives (years)                  | <b>5</b>                | 5           |
| Expected volatility (%)                 | <b>55</b>               | 56          |
| Dividend per share (%)                  | -                       | -           |
| Forfeiture rate (%)                     | <b>11</b>               | 12          |
| Weighted average fair value, per option | <b>\$0.92</b>           | \$0.54      |

**(e) Andora Energy Corporation**

**i) Issued and Outstanding Class A Common Shares**

As at June 30, 2019 Andora had 100.1 million (December 31, 2018 – 100.1 million) common shares issued and outstanding of which Pan Orient held 71.8% (December 31, 2018 – 71.8%).

**ii) Options to Purchase Common Shares of Andora**

|   |                                      | <b>Number of</b>                                    | <b>Weighted</b>                                     |
|---|--------------------------------------|---|---|
|   |                                      | <b>options</b>                                      | <b>average</b>                                      |
|   |                                      |   | <b>exercise price</b>                               |
|   |                                      |   | <b>(\$)</b>   |
| Balance as at December 31, 2018 & June 30, 2019 |                                      | 9,500,000   | 0.15  |
| <b>Options Outstanding at June 30, 2019</b>     |                                      |   |   |
| Exercise Price (\$)                             | Number of Options                    | Weighted Average Exercise Price (\$)                | Weighted Average Remaining Contractual Life (years) |
| 0.15  | 9,500,000                            | 0.15  | 1.34  |
| <b>Options Exercisable at June 30, 2019</b>     |                                      |   |   |
| Number of Options                               | Weighted Average Exercise Price (\$) | Weighted Average Remaining Contractual Life (years) |   |
| 9,500,000                                       | 0.15                                 | 1.34  |   |

**iii) Convertible Credit Facility**

Andora entered into a convertible loan agreement with Pan Orient on January 30, 2018 whereby Andora can draw up to \$2 million against a revolving credit facility. The loan bears interest at HSBC Canada prime rate for commercial loans in Canadian dollars plus three percent, per annum. Any principal drawn against the credit facility, including accrued interest (collectively, "outstanding amount"), is repayable upon demand or by December 31, 2022, whichever is earlier. Security for repayment of any outstanding amount is provided by a general security agreement creating a first fixed charge over all of Andora's property, subject to certain permitted encumbrances. Pan Orient has the option under the loan agreement to convert the outstanding amount, or a portion thereof, into Andora's common shares at a price of \$0.15 per share. As of June 30, 2019, Andora had drawn \$1.5 million (December 31, 2018 - \$1.0 million) against the credit facility.

**Pan Orient Energy Corp.**  
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**(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<br>June 30 |            | Six Months Ended<br>June 30 |            |
|--|-------------------------------|------------|-----------------------------|------------|
|  | 2019                          | 2018       | 2019                        | 2018       |
| Weighted average common shares – basic   | <b>54,890,223</b>             | 54,900,407 | <b>54,895,287</b>           | 54,900,407 |
| Dilutive effect of stock options         | <b>1,301,726</b>              | -          | <b>1,122,544</b>            | -          |
| Weighted average common shares – diluted | <b>56,191,949</b>             | 54,900,407 | <b>56,017,831</b>           | 54,900,407 |

Options to purchase 1,375,000 common shares outstanding at June 30, 2019 (June 30, 2018 – 4,991,000) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

**11) FINANCIAL INSTRUMENTS**

As at June 30, 2019 the following financial instruments were denominated in currencies other than the Canadian dollar:

|  | June 30, 2019         |                               | December 31, 2018     |                               |
|--|-----------------------|-------------------------------|-----------------------|-------------------------------|
|  | US dollar<br>(\$000s) | Indonesia<br>Rupiah<br>(000s) | US dollar<br>(\$000s) | Indonesia<br>Rupiah<br>(000s) |
| Cash and cash equivalents                                | <b>19,447</b>         | <b>191,872</b>                | 19,143                | 845,130                       |
| Accounts receivable                                      | <b>12</b>             | -                             | 12                    | 39,352,266                    |
| Deposits   | <b>28</b>             | <b>217,920</b>                | 24                    | -                             |
| Accounts payable and accrued liabilities                 | <b>(744)</b>          | <b>(133,474)</b>              | (1,402)               | (7,377,201)                   |
| Net exposure in foreign currency                         | <b>18,743</b>         | <b>276,318</b>                | 17,777                | 32,820,195                    |
| Net exposure in Canadian dollars <sup>(1)</sup> (\$000s) | <b>24,528</b>         | <b>26</b>                     | 24,253                | 3,105                         |

*(1) Translated at June 30, 2019 and December 31, 2018 exchange rates.*

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

**12) 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 periods ended June 30:

| As at:<br>(\$000s)            | June 30, 2019 |               |                |                | December 31, 2018 |               |                |                |
|-------------------------------|---------------|---------------|----------------|----------------|-------------------|---------------|----------------|----------------|
|                               | Thailand      | Indonesia     | Canada         | Total          | Thailand          | Indonesia     | Canada         | Total          |
| Property, plant and equipment | -             | -             | 414            | 414            | -                 | -             | 433            | 433            |
| Exploration and evaluation    | -             | 18,179        | 85,797         | 103,976        | -                 | 17,174        | 85,308         | 102,482        |
| Other assets                  | 37,069        | 341           | 30,199         | 67,609         | 34,516            | 4,071         | 32,215         | 70,802         |
| <b>Total assets</b>           | <b>37,069</b> | <b>18,520</b> | <b>116,410</b> | <b>171,999</b> | <b>34,516</b>     | <b>21,245</b> | <b>117,956</b> | <b>173,717</b> |

  

| Six Months Ended:<br>(\$000s)       | June 30, 2019 |             |                |              | June 30, 2018 |              |              |              |
|-------------------------------------|---------------|-------------|----------------|--------------|---------------|--------------|--------------|--------------|
|                                     | Thailand      | Indonesia   | Canada         | Total        | Thailand      | Indonesia    | Canada       | Total        |
| Income (loss) from joint venture    | 2,353         | -           | -              | 2,353        | (288)         | -            | -            | (288)        |
| Amortization and depreciation       | -             | 47          | 29             | 76           | -             | -            | 20           | 20           |
| Exploration and evaluation expense  | -             | -           | -              | -            | -             | 27           | -            | 27           |
| Decommissioning recovery            | -             | (12)        | -              | (12)         | -             | -            | -            | -            |
| General and administrative          | 16            | 123         | 1,275          | 1,414        | 15            | 107          | 1,039        | 1,161        |
| Finance income                      | -             | -           | (153)          | (153)        | -             | -            | (238)        | (238)        |
| Stock based compensation            | -             | -           | 532            | 532          | -             | -            | 429          | 429          |
| Foreign exchange loss (gain)        | -             | (73)        | 986            | 913          | -             | 5            | (1,095)      | (1,090)      |
| <b>Total expenses</b>               | <b>16</b>     | <b>85</b>   | <b>2,669</b>   | <b>2,770</b> | <b>15</b>     | <b>139</b>   | <b>155</b>   | <b>309</b>   |
| Deferred income tax recovery        | -             | -           | (1,080)        | (1,080)      | -             | -            | (52)         | (52)         |
| Net income (loss) attributable to:  |               |             |                |              |               |              |              |              |
| Common shareholders                 | 2,337         | (85)        | (1,814)        | 438          | (303)         | (139)        | (47)         | (489)        |
| Non-controlling interest            | -             | -           | 225            | 225          | -             | -            | (56)         | (56)         |
| <b>Total net income (loss)</b>      | <b>2,337</b>  | <b>(85)</b> | <b>(1,589)</b> | <b>663</b>   | <b>(303)</b>  | <b>(139)</b> | <b>(103)</b> | <b>(545)</b> |
| Capital expenditures <sup>(1)</sup> | -             | 1,672       | 246            | 1,918        | -             | 1,626        | 496          | 2,122        |

(1) Capital expenditures excluded decommissioning costs, the impact of changes in foreign currency translation and capitalized stock-based compensation expense.

**Pan Orient Energy Corp.**

**Notes to the Condensed interim consolidated financial statements**

*(Expressed in Canadian dollars, unless otherwise noted)*

*(Unaudited)*

| Three Months Ended:<br>(\$000s)     | June 30, 2019 |           |        |       | June 30, 2018 |           |        |       |
|-------------------------------------|---------------|-----------|--------|-------|---------------|-----------|--------|-------|
|                                     | Thailand      | Indonesia | Canada | Total | Thailand      | Indonesia | Canada | Total |
| Income (loss) from joint venture    | 1,699         | -         | -      | 1,699 | (97)          | -         | -      | (97)  |
| Amortization and depreciation       | -             | 23        | 15     | 38    | -             | -         | 11     | 11    |
| Exploration and evaluation expense  | -             | -         | -      | -     | -             | 26        | -      | 26    |
| General and administrative          | 8             | 60        | 475    | 543   | 2             | 35        | 516    | 553   |
| Finance income                      | -             | -         | (86)   | (86)  | -             | -         | (136)  | (136) |
| Stock based compensation            | -             | -         | 139    | 139   | -             | -         | 132    | 132   |
| Foreign exchange loss (gain)        | -             | (7)       | 531    | 524   | -             | (39)      | (439)  | (478) |
| Total expenses                      | 8             | 76        | 1,074  | 1,158 | 2             | 22        | 84     | 108   |
| Deferred income tax recovery        | -             | -         | (995)  | (995) | -             | -         | (23)   | (23)  |
| Net income (loss) attributable to:  |               |           |        |       |               |           |        |       |
| Common shareholders                 | 1,691         | (76)      | (328)  | 1,287 | (99)          | (22)      | (30)   | (151) |
| Non-controlling interest            | -             | -         | 249    | 249   | -             | -         | (31)   | (31)  |
| Total net income (loss)             | 1,691         | (76)      | (79)   | 1,536 | (99)          | (22)      | (61)   | (182) |
| Capital expenditures <sup>(1)</sup> | -             | 1,091     | 122    | 1,213 | -             | 1,541     | 278    | 1,819 |

*(1) Capital expenditures excluded decommissioning costs, the impact of changes in foreign currency translation and capitalized stock-based compensation expense.*

**Pan Orient Energy Corp.**  
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*(Unaudited)*

**13) COMMITMENTS**

As at June 30, 2019 the Company's estimated outstanding capital commitments are as follows:

|   |  | <b>Estimated Net Financial Commitment</b> |                                   |
|---|--|---|-----------------------------------|
| <b>Country and Concession Name</b>                          | <b>Remaining Work Program Commitment</b> | <b>Obligation Ending</b>                  | <b>CAD<sup>(1)</sup> (\$000s)</b> |
| <b>Thailand Joint Venture</b>                               |  |   |                                   |
| Concession L53  | ▪ Surface reservation fee <sup>(2)</sup> | January 2021                              | -                                 |
| <b>Total Thailand</b>                                       |  |   | <b>-</b>                          |
| <b>Indonesia</b>  |  |   |                                   |
| East Jabung   | ▪ Geological studies                     | January 2020 <sup>(3)</sup>               | 32                                |
|   | ▪ Drill one exploration well             | January 2020 <sup>(3)</sup>               | 1,284                             |
| <b>Total Indonesia</b>                                      |  |   | <b>1,316</b>                      |
| <b>Canadian Heavy Oil Sands – Andora Energy Corporation</b> |  |   |                                   |
| Sawn Lake, Alberta  | ▪ Natural gas pipeline tariff            | April 1, 2022 to March 31, 2030           | 719                               |
| <b>Total Canada</b>   |  |   | <b>719</b>                        |
|   |  |   | <b>2,035</b>                      |

(1) Translated at June 30, 2019 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 "reserved area" within Concession L53 for up to five years, with the payment of a surface reservation fee of \$0.8 million, for each year Pan Orient Energy (Siam) Ltd. elects to retain the reserved area. Pan Orient Energy (Siam) Ltd. 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. Pan Orient Energy (Siam) Ltd. 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. During the first quarter of 2019, Pan Orient Energy (Siam) Ltd. paid the fourth year deposit for the remaining portion of the "reserved area".

(3) The original expiry of the East Jabung PSC occurred on November 21, 2017 and was extended by the Government of Indonesia ("GOI") to January 20, 2019. The East Jabung PSC joint venture received approval in January 2019 for a four year exploration extension period of the PSC to January 20, 2023. Capital commitments for the first year of the PSC exploration extension include drilling of one exploration well and geological studies. The drilling of the Anggun-1X well is intended to qualify as the exploration well commitment of USD \$2 million (CAD \$1.3 million net to Pan Orient) in the PSC. The estimated dry hole cost of the Anggun-1X well, including permanent road, well pad construction and drilling is USD \$15.4 million (CAD \$20.6 million), with Pan Orient's 49% share of USD \$7.5 million (CAD \$10.1 million). Total capital costs for the Anggun-1X well to June 30, 2019 were USD \$7.3 million on a gross basis (USD \$3.6 million or CAD \$4.8 million net to Pan Orient). Additional commitments for the second to fourth year PSC extension will be determined on a year-by-year basis through submission of a work program and approval from the GOI. During the four year exploration extension period, the joint venture has the option of exiting or continuing with the PSC on an annual basis. The final remaining PSC area after the extension is 1,245.56 square kilometers, representing 20% of the original PSC area.

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.



**PAN ORIENT ENERGY CORP.**

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