



PAN ORIENT ENERGY CORP.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(Unaudited)**

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

(\$000s)	March 31 2016	December 31 2015
Assets		
Current		
Cash and cash equivalents	41,574	66,170
Accounts receivable	1,235	1,369
Taxes receivable	10,159	12,507
	52,968	80,046
Deposits	4,145	4,259
Investment in Joint Venture (note 3)	33,477	35,088
Property, plant and equipment (note 4)	564	581
Exploration and evaluation (note 5)	184,939	190,322
Total assets	276,093	310,296
Liabilities		
Current		
Accounts payable and accrued liabilities	3,525	4,678
Taxes payable	437	467
	3,962	5,145
Deferred tax liabilities	9,240	10,165
Decommissioning provision (note 6)	1,383	1,335
Total liabilities	14,585	16,645
Shareholders' equity		
Share capital (note 7)	91,816	113,770
Contributed surplus	25,476	25,316
Non-controlling interest	17,167	17,169
Accumulated other comprehensive income	19,499	27,625
Retained earnings	107,550	109,771
Total shareholders' equity	261,508	293,651
Total liabilities and shareholders' equity	276,093	310,296

Commitments (note 10)

Contingencies (note 11)

See accompanying notes to the interim condensed consolidated financial statements.

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

(\$000s, except per share amounts)	Three months Ended	
	March 31	
	2016	2015
Revenue		
Oil	-	809
Royalties	-	(38)
Interest	46	48
	46	819
Expenses		
Loss from investment in Joint Venture (note 3)	558	293
Production and operating	-	257
Transportation	-	24
Depletion and depreciation	17	975
Exploration	114	161
General and administrative	650	1,226
Stock-based compensation	160	826
Impairment	-	1,742
Foreign exchange (gain) loss	1,115	(722)
Gain on disposition of Thailand interest	-	(38,471)
	2,614	(33,689)
Income (loss) before taxes and non-controlling interest	(2,568)	34,508
Taxes		
Current income tax expense	581	-
Deferred income tax expense (recovery)	(926)	566
	(345)	566
Net income (loss)	(2,223)	33,942
Other comprehensive income (loss)		
Foreign exchange gain (loss) on translation of foreign operations	(7,053)	13,772
Foreign exchange gain (loss) on translation of Joint Venture	(1,073)	436
Total other comprehensive income (loss)	(8,126)	14,208
Total comprehensive income (loss)	(10,349)	48,150
Net income (loss) attributable to:		
Common shareholders	(2,221)	33,940
Non-controlling interest	(2)	2
Net income (loss)	(2,223)	33,942
Total comprehensive income (loss) attributable to:		
Common shareholders	(10,347)	48,148
Non-controlling interest	(2)	2
Total comprehensive income (loss)	(10,349)	48,150
Net income (loss) per share attributable to common shareholders (note 7)		
Basic and diluted	\$ (0.04)	\$ 0.60

See accompanying notes to the interim condensed consolidated financial statements.

Pan Orient Energy Corp.
Interim Condensed Consolidated Statements of Changes in 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	-	-	2	-	33,940	33,942
Stock-based compensation expense	-	826	-	-	-	826
Capitalized stock-based compensation	-	8	-	-	-	8
Normal course issuer bid	(295)	93	-	-	-	(202)
Other comprehensive income	-	-	-	14,208	-	14,208
Disposition of Thailand interest	-	-	-	(8,486)	-	(8,486)
Balance as at March 31, 2015	117,361	23,289	17,311	19,902	114,658	292,521
Balance as at December 31, 2015	113,770	25,316	17,169	27,625	109,771	293,651
Net loss	-	-	(2)	-	(2,221)	(2,223)
Stock-based compensation expense	-	160	-	-	-	160
Special distribution	(21,954)	-	-	-	-	(21,954)
Other comprehensive loss	-	-	-	(8,126)	-	(8,126)
Balance as at March 31, 2016	91,816	25,476	17,167	19,499	107,550	261,508

See accompanying notes to the interim condensed consolidated financial statements.

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

(\$000s)	Three months Ended	
	March 31	
	2016	2015
Cash Provided From (Used in)		
Operating Activities		
Net income (loss)	(2,223)	33,942
Adjustments for non-cash items:		
Deferred tax expense (recovery)	(926)	566
Depletion and depreciation	17	975
Stock-based compensation	160	826
Accretion	5	10
Loss from investment in Joint Venture (note 3)	558	293
Impairment	-	1,742
Gain on disposition of Thailand interest	-	(38,471)
Changes in non-cash working capital	2,212	(393)
Cash flow used in operating activities	(197)	(510)
Investing Activities		
Property, plant and equipment	-	(62)
Exploration and evaluation	(1,626)	(1,802)
Net proceeds on disposition of Thailand interest	-	52,028
Cash and cash equivalents disposed on sale of Thailand interest	-	(5,081)
Dispositions	105	-
Deposits	114	(496)
Change in amounts due from Joint Venture	(20)	(28)
Changes in non-cash working capital	(913)	(556)
Cash flow from (used in) investing activities	(2,340)	44,003
Financing Activities		
Special distribution	(21,954)	-
Normal course issuer bid	-	(202)
Cash flow used in financing activities	(21,954)	(202)
Change in cash and cash equivalents	(24,491)	43,291
Effect of foreign exchange on cash and cash equivalents	(105)	578
Cash and cash equivalents, beginning of period	66,170	26,857
Cash and cash equivalents, end of period	41,574	70,726

See accompanying notes to the interim condensed consolidated financial statements.

Pan Orient Energy Corp.
Notes to the Interim Condensed 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 March 31, 2016 and for the three months ended March 31, 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 May 17, 2016.

Pan Orient Energy Corp.
Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)
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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)	March 31 2016
Investment in Joint Venture, beginning of period	35,088
Change in amounts due from Joint Venture	20
Net loss from Joint Venture, after tax	(558)
Foreign currency translation	(1,073)
Investment in Joint Venture, end of period	33,477

Pan Orient Energy (Siam) Ltd. Summarized Financial Information (\$000s)	March 31 2016
Current assets	4,265
Non-current assets	68,046
Current liabilities	(465)
Non-current liabilities	(19,324)
Net assets	52,522
Pan Orient's Investment in Joint Venture	
Pan Orient's share of net assets	26,264
Fair value adjustment on initial recognition	8,924
Amortization of fair value adjustment on initial recognition	(439)
Change in amounts due from Joint Venture, since initial recognition	(1,272)
Investment in Joint Venture	33,477

Pan Orient Energy Corp.
Notes to the Interim Condensed 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 March 31	
	2016	2015
Oil revenue	1,811	2,585
Royalties	(90)	(124)
Interest income	1	2
Total net revenue	1,722	2,463
Production and operating	599	692
Transportation	73	68
Depletion and depreciation	2,788	2,783
General and administrative	376	452
Foreign exchange loss	-	2,954
Total expenses	3,836	6,949
Loss before income taxes	(2,114)	(4,486)
Current income tax	-	-
Deferred income tax recovery	(1,162)	(650)
Total tax recovery	(1,162)	(650)
Net loss	(952)	(3,836)
Other comprehensive income (loss)	(2,146)	5,847
Total comprehensive income (loss)	(3,098)	2,011
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	(476)	(293)
Amortization of fair value adjustment	(82)	-
Net loss from Joint Venture	(558)	(293)
Pan Orient's share of other comprehensive income (loss)	(1,073)	436

4) PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the carrying amount of property, plant and equipment as at March 31, 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 March 31, 2016	270	1,348	1,618
Accumulated depletion and depreciation			
At December 31, 2015	(272)	(768)	(1,040)
Depletion and depreciation	(1)	(16)	(17)
Foreign currency translation	3	-	3
At March 31, 2016	(270)	(784)	(1,054)
Net book value			
At December 31, 2015	1	580	581
At March 31, 2016	-	564	564

Pan Orient Energy Corp.
Notes to the Interim Condensed 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 March 31, 2016 is set out below.

(\$000s)	Indonesia	Canada	Total
At December 31, 2015	109,165	81,157	190,322
Additions	555	1,071	1,626
Changes in decommissioning provision	-	45	45
Dispositions	-	(105)	(105)
Foreign currency translation	(6,949)	-	(6,949)
At March 31, 2016	102,771	82,168	184,939

General and administrative costs totaling \$0.6 million (March 31, 2015 - \$0.4 million) and stock-based compensation totaling nil (March 31, 2015 - \$8 thousand) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

As at March 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.

6) DECOMMISSIONING PROVISION

(\$000s)	Indonesia	Canada	Total
Decommissioning provision, beginning of period	42	1,293	1,335
Revisions to obligations	-	45	45
Accretion	-	5	5
Foreign currency translation	(2)	-	(2)
Decommissioning provision, end of period	40	1,343	1,383

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 (March 31, 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 2% at March 31, 2016 (March 31, 2015 - 2%).

7) SHARE CAPITAL

(a) Authorized

Unlimited Common Voting Shares
Unlimited Preferred Shares

(b) Issued and Outstanding Class A Common Shares

	Shares Outstanding	Amount (\$000s)
Common Shares		
Balance as at December 31, 2015	54,885,407	\$ 113,770
Special distribution	-	(21,954)
Balance as at March 31, 2016	54,885,407	\$ 91,816

Pan Orient Energy Corp.
Notes to the Interim Condensed Consolidated Financial Statements
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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.

(c) Options to Purchase Common Shares

	Number of Options	Weighted Average Exercise Price (\$)
Options outstanding at December 31, 2015	5,166,000	2.09
Options repriced	-	(0.40)
Forfeited	(175,000)	1.52
Options outstanding at March 31, 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 March 31, 2016				Options Exercisable at March 31, 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	4.42	83,333	0.89	4.42
1.01 . 1.50	2,195,000	1.43	3.85	1,463,334	1.43	3.85
1.51 . 2.00	1,011,000	1.52	2.67	1,011,000	1.52	2.67
2.01 . 2.57	1,535,000	2.32	1.43	1,535,000	2.32	1.43
0.89 . 2.57	4,991,000	1.69	2.90	4,092,667	1.77	2.66

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

(d) Share Appreciation Rights

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

During the three months ended March 31, 2016, all outstanding Share Appreciation Rights were repriced for the special distribution and forfeited unexercised.

(e) Andora Energy Corporation

i) Issued and Outstanding Class A Common Shares

As at March 31, 2016 Andora had 100.1 million (March 31, 2015 . 100.1 million) common shares issued and outstanding of which Pan Orient held 71.8% (March 31, 2015 . 71.8%).

Pan Orient Energy Corp.
Notes to the Interim Condensed Consolidated Financial Statements
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(Unaudited)

ii) Options to Purchase Common Shares of Andora

		Number of options	Weighted average exercise price (\$)
Balance as at December 31, 2015 and March 31, 2016		9,552,035	0.60
Options Outstanding at March 31, 2016			
Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
0.60	9,552,035	0.60	0.42
Options Exercisable at March 31, 2016			
Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
0.60	9,552,035	0.60	0.42

(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 March 31	
	2016	2015
Weighted average common shares . basic and diluted	54,885,407	56,750,780

Options to purchase 4,991,000 common shares outstanding at March 31, 2016 (March 31, 2015 . 5,406,000) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

8) FINANCIAL INSTRUMENTS

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

	March 31, 2016		March 31, 2015	
	US dollar (\$000s)	Indonesia Rupiah (000s)	US dollar (\$000s)	Indonesia Rupiah (000s)
Cash and cash equivalents	22,534	903,904	42,315	650,691
Accounts receivable	23	-	87	-
Deposits	550	39,248,277	350	40,194,195
Accounts payable and accrued liabilities	(1,697)	(2,555,246)	(1,803)	(2,292,796)
Taxes payable	(337)	-	-	-
Net exposure in functional currency	21,073	37,596,935	40,949	38,552,090
Net exposure in Canadian dollars ⁽¹⁾ (\$000s)	27,332	3,697	51,935	3,889

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

Pan Orient Energy Corp.
Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

9) 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 March 31:

As at: (\$000s)	March 31, 2016				December 31, 2015			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Property, plant and equipment	-	-	564	564	-	1	580	581
Exploration and evaluation	-	102,771	82,168	184,939	-	109,165	81,157	190,322
Other assets	33,478	5,222	51,890	90,590	35,109	5,636	78,648	119,393
Total assets	33,478	107,993	134,622	276,093	35,109	114,802	160,385	310,296

Three months Ended: (\$000s)	March 31, 2016				March 31, 2015			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Oil revenue	-	-	-	-	809	-	-	809
Royalties	-	-	-	-	(38)	-	-	(38)
Interest revenue	-	-	46	46	1	-	47	48
Total net revenue	-	-	46	46	772	-	47	819
Loss from Joint Venture	558	-	-	558	293	-	-	293
Production and operating	-	-	-	-	257	-	-	257
Transportation	-	-	-	-	24	-	-	24
Depletion and depreciation	-	1	16	17	943	11	21	975
Exploration	-	114	-	114	-	161	-	161
General and administrative	8	170	472	650	190	457	579	1,226
Stock based compensation	-	-	160	160	-	-	826	826
Impairment	-	-	-	-	-	1,742	-	1,742
Foreign exchange (gain) loss	-	(72)	1,187	1,115	8	(220)	(510)	(722)
Gain on disposition of Thailand interests	-	-	-	-	-	-	(38,471)	(38,471)
Total expenses	566	213	1,835	2,614	1,715	2,151	(37,555)	(33,689)
Current income tax	-	-	581	581	-	-	-	-
Deferred income tax expense (recovery)	-	-	(926)	(926)	(340)	-	906	566
Total taxes	-	-	(345)	(345)	(340)	-	906	566
Net income (loss) attributable to:								
Common shareholders	(566)	(213)	(1,442)	(2,221)	(603)	(2,151)	36,694	33,940
Non-controlling interest	-	-	(2)	(2)	-	-	2	2
Total net income (loss)	(566)	(213)	(1,444)	(2,223)	(603)	(2,151)	36,696	33,942
Capital expenditures	-	555	1,071	1,626	60	430	1,374	1,864

10) COMMITMENTS

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

Country and Concession Name	Remaining Work Program Commitment	Estimated Net Financial Commitment	
		Obligation Ending	CAD ⁽¹⁾ (\$000s)
Thailand Joint Venture ⁽²⁾			
Concession L53	▪ Surface reservation fee	January 2021	403
Total Thailand			403
Indonesia ⁽³⁾			
East Jabung ⁽⁴⁾	▪ Geological studies	November 2016	90
	▪ Drill two exploration wells	November 2016	1,910
Total Indonesia			2,000
Canadian Heavy Oil Sands – Andora Energy Corporation			
Sawn Lake, Alberta	▪ Natural gas pipeline tie-in and tariff	2016	67
	▪ Natural gas pipeline tie-in and tariff	2017	90
	▪ Natural gas pipeline tie-in and tariff	October 2018	75
Total Canada			232
			2,635

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

(2) The original nine year exploration period for Concession L53 expired in January 2016. The Government of Thailand has approved a 215.87 square kilometer "reserved area" with the payment of an annual surface reservation fee of \$0.4 million for up to five years. The surface reservation fee is reimbursable through work program expenditures.

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

(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.

11) 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 \$7.8 million when translated at the March 31, 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.



PAN ORIENT ENERGY CORP.

1505, 505 - 3rd Street SW, Calgary Alberta Canada T2P 3E6