



**PAN ORIENT ENERGY CORP.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2017  
(Unaudited)**

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

(\$000s)	March 31 2017	December 31 2016
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	44,351	46,934
Accounts receivable	443	321
Taxes receivable (note 7)	148	-
	<b>44,942</b>	47,255
<b>Deposits</b>	<b>4,326</b>	4,371
<b>Investment in joint venture</b> (note 3)	<b>33,316</b>	32,795
<b>Property, plant and equipment</b> (note 4)	<b>522</b>	525
<b>Exploration and evaluation</b> (note 5)	<b>90,332</b>	89,446
<b>Total assets</b>	<b>173,438</b>	174,392
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	1,924	1,660
Taxes payable (note 7)	-	148
	<b>1,924</b>	1,808
<b>Deferred tax liabilities</b>	<b>7,310</b>	7,363
<b>Decommissioning provision</b> (note 6)	<b>1,831</b>	2,037
<b>Total liabilities</b>	<b>11,065</b>	11,208
<b>Shareholders' equity</b>		
Share capital (note 8)	91,816	91,816
Contributed surplus	26,118	26,006
Non-controlling interest	17,016	17,051
Accumulated other comprehensive income	2,003	1,377
Retained earnings	25,420	26,934
<b>Total shareholders' equity</b>	<b>162,373</b>	163,184
<b>Total liabilities and shareholders' equity</b>	<b>173,438</b>	174,392

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

(\$000s, except per share amounts)	<b>Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenue</b>		
Interest	59	46
	<b>59</b>	<b>46</b>
<b>Expenses</b>		
Loss from investment in joint venture (note 3)	178	558
Amortization and depreciation	13	17
Exploration (note 5)	5	114
Exploration and evaluation expense (note 5)	222	-
General and administrative	1,082	650
Stock-based compensation	97	160
Foreign exchange loss	213	1,115
	<b>1,810</b>	<b>2,614</b>
<b>Loss before taxes and non-controlling interest</b>	<b>(1,751)</b>	<b>(2,568)</b>
<b>Taxes</b>		
Current income tax expense (recovery)	(148)	581
Deferred income tax recovery	(54)	(926)
	<b>(202)</b>	<b>(345)</b>
<b>Net loss</b>	<b>(1,549)</b>	<b>(2,223)</b>
<b>Other comprehensive income (loss)</b>		
Foreign exchange loss on translation of foreign operations	(97)	(7,053)
Foreign exchange gain (loss) on translation of joint venture (note 3)	723	(1,073)
<b>Total other comprehensive income (loss)</b>	<b>626</b>	<b>(8,126)</b>
<b>Total comprehensive loss</b>	<b>(923)</b>	<b>(10,349)</b>
<b>Net loss attributable to:</b>		
Common shareholders	(1,514)	(2,221)
Non-controlling interest	(35)	(2)
<b>Net loss</b>	<b>(1,549)</b>	<b>(2,223)</b>
<b>Total comprehensive loss attributable to:</b>		
Common shareholders	(888)	(10,347)
Non-controlling interest	(35)	(2)
<b>Total comprehensive loss</b>	<b>(923)</b>	<b>(10,349)</b>
<b>Net loss per share attributable to common shareholders (note 8)</b>		
Basic and diluted	<b>\$ (0.03)</b>	<b>\$ (0.04)</b>

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, 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
Balance as at December 31, 2016	91,816	26,006	17,051	1,377	26,934	163,184
Net loss	-	-	(35)	-	(1,514)	(1,549)
Stock-based compensation expense	-	97	-	-	-	97
Capitalized stock-based compensation	-	15	-	-	-	15
Other comprehensive income	-	-	-	626	-	626
Balance as at March 31, 2017	91,816	26,118	17,016	2,003	25,420	162,373

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 March 31	
	2017	2016
<b>Cash Provided From (Used in)</b>		
<b>Operating Activities</b>		
Net loss	(1,549)	(2,223)
Adjustments for non-cash items:		
Deferred tax recovery	(54)	(926)
Amortization and depreciation	13	17
Stock-based compensation	97	160
Accretion	8	5
Loss from investment in joint venture (note 3)	178	558
Exploration and evaluation expense (note 5)	222	-
Decommissioning expenditures (note 6)	(430)	-
Changes in non-cash working capital	(215)	2,212
Cash flow used in operating activities	(1,730)	(197)
<b>Investing Activities</b>		
Property, plant and equipment	(10)	-
Exploration and evaluation	(927)	(1,626)
Dispositions of exploration and evaluation assets	-	105
Deposits	45	114
Change in amounts due from joint venture	24	(20)
Changes in non-cash working capital	61	(913)
Cash flow used in investing activities	(807)	(2,340)
<b>Financing Activities</b>		
Special distribution	-	(21,954)
Cash flow used in financing activities	-	(21,954)
<b>Change in cash and cash equivalents</b>	<b>(2,537)</b>	<b>(24,491)</b>
<b>Effect of foreign exchange on cash and cash equivalents</b>	<b>(46)</b>	<b>(105)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>46,934</b>	<b>66,170</b>
<b>Cash and cash equivalents, end of period</b>	<b>44,351</b>	<b>41,574</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)*

**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 (the "Andora") which holds properties in Northern Alberta. The Company is continually pursuing other oil and natural gas exploration opportunities in Asia.

**2) BASIS OF PRESENTATION**

*Statement of Compliance*

The interim condensed consolidated financial statements for the Company as at March 31, 2017 and for the three months ended March 31, 2017 and 2016 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2016. 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 16, 2017.

**3) 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. 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.

<b>Three months ended:</b> (\$000s)	<b>March 31</b>	
	<b>2017</b>	<b>2016</b>
Investment in joint venture, beginning of period	32,795	35,088
Change in amounts due from joint venture	(24)	20
Net loss from joint venture, after tax	(178)	(558)
Foreign currency translation	723	(1,073)
Investment in joint venture, end of period	33,316	33,477

Pan Orient Energy (Siam) Ltd. Summarized Financial Information (\$000s)	<b>March 31</b>	
	<b>2017</b>	<b>2016</b>
Current assets	6,697	4,265
Non-current assets	65,309	68,046
Current liabilities	(564)	(465)
Non-current liabilities	(18,196)	(19,324)
Net assets	53,246	52,522

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

**Pan Orient's Investment in Joint Venture**

Pan Orient's share of net assets	26,625	26,264
Fair value adjustment on initial recognition	8,924	8,924
Amortization of fair value adjustment on initial recognition	(744)	(439)
Change in amounts due from joint venture, since initial recognition	(1,489)	(1,272)
Investment in joint venture	33,316	33,477

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	
	2017	2016
Oil revenue	2,883	1,811
Royalties	(141)	(90)
Interest income	1	1
Total net revenue	2,743	1,722
Production and operating	474	599
Transportation	71	73
Depletion and depreciation	2,227	2,788
General and administrative	388	376
Foreign exchange gain	(4)	-
Total expenses	3,156	3,836
Loss before income taxes	(413)	(2,114)
Deferred income tax recovery	(221)	(1,162)
Net loss	(192)	(952)
Other comprehensive income (loss)	1,445	(2,146)
Total comprehensive income (loss)	1,253	(3,098)
<b>Pan Orient's share of loss from joint venture under equity method, (50.01% net to Pan Orient)</b>		
Pan Orient's share of net loss	(96)	(476)
Amortization of fair value adjustment	(82)	(82)
Net loss from joint venture	(178)	(558)
Pan Orient's share of other comprehensive income (loss)	723	(1,073)

**4) PROPERTY, PLANT AND EQUIPMENT**

A reconciliation of the carrying amount of property, plant and equipment as at March 31, 2017 is set out below.

(\$000s)	Indonesia	Canada	Total
<b>Cost</b>			
At December 31, 2016	308	1,352	1,660
Additions	-	10	10
At March 31, 2017	308	1,362	1,670
<b>Accumulated amortization and depreciation</b>			
At December 31, 2016	(308)	(827)	(1,135)
Amortization and depreciation	-	(13)	(13)
At March 31, 2017	(308)	(840)	(1,148)
<b>Net book value</b>			
At December 31, 2016	-	525	525
At March 31, 2017	-	522	522

**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 March 31, 2017 is set out below.

(\$000s)	Indonesia	Canada	Total
At December 31, 2016	6,141	83,305	89,446
Additions	702	240	942
Foreign currency translation	(56)	-	(56)
At March 31, 2017	6,787	83,545	90,332

General and administrative costs totaling \$0.1 million (March 31, 2016 . \$0.6 million) and stock-based compensation totaling \$15 thousand (March 31, 2016 - nil) that were directly related to exploration and evaluation activities have been capitalized as E&E assets.

During the three months ended March 31, 2017, the Company recorded \$0.2 million in exploration and evaluation expense related to additional reclamation costs on the four wells previously drilled at the Batu Gajah PSC in Indonesia. The Batu Gajah PSC expired on January 15, 2017 and as a result, the Company reported in the fourth quarter of 2016 a \$102.3 million impairment charge of the Batu Gajah E&E assets which was partially offset by a \$22.6 million associated reduction in accumulated other comprehensive income related to foreign currency translation resulting in a net impairment expense of \$79.7 million.

As at March 31, 2017 Andora's Sawm 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	439	1,598	2,037
Revisions to obligations	222	-	222
Decommissioning expenditures	(430)	-	(430)
Accretion	-	8	8
Foreign currency translation	(6)	-	(6)
Decommissioning provision, end of period	225	1,606	1,831

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 \$3.3 million (March 31, 2016 . \$2.0 million). Payments to settle the provision will be made over the operating lives of the underlying assets and are estimated to be incurred between 2017 and 2050. Estimated costs have been discounted at the risk-free interest rate in the jurisdiction in which the expenditure is expected to be incurred which averaged at 2% at March 31, 2017 (March 31, 2016 . 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 Canadian taxes receivable (payable) at March 31, 2017 is as follows:

(\$000s)	<b>March 31, 2017</b>
Canadian taxes payable, beginning of period	(148)
Taxes paid	148
Current income tax recovery	148
Canadian taxes receivable, end of period	148

**8) SHARE CAPITAL**

**(a) Authorized**

Unlimited Common Voting Shares  
 Unlimited Preferred Shares

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

Common Shares	<b>Shares Outstanding</b>	<b>Amount (\$000s)</b>
Balance as at December 31, 2016 & March 31, 2017	54,885,407	\$ 91,816

Subsequent to March 31, 2017, on April 6, 2017 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 4,512,964 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 April 12, 2017 and April 12, 2018. No shares were purchased between April 12, 2017 and the approval date of the financial statement.

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

	<b>Number of Options</b>	<b>Weighted Average Exercise Price (\$)</b>
Options outstanding at December 31, 2016 & March 31, 2017	4,991,000	1.69

<b>Options Outstanding at March 31, 2017</b>					<b>Options Exercisable at March 31, 2017</b>		
Exercise Price <sup>(1)</sup> (\$)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)	
0.89 . 1.00	250,000	0.89	3.42	166,666	0.89	3.42	
1.01 . 1.50	2,195,000	1.43	2.85	2,195,000	1.43	2.85	
1.51 . 2.00	1,011,000	1.52	1.67	1,011,000	1.52	1.67	
2.01 . 2.57	1,535,000	2.32	0.43	1,535,000	2.32	0.43	
0.89 . 2.57	4,991,000	1.69	1.90	4,907,666	1.71	1.87	

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

**(d) Andora Energy Corporation**

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

As at March 31, 2017 Andora had 100.1 million (December 31, 2016 . 100.1 million) common shares issued and outstanding of which Pan Orient held 71.8% (December 31, 2016 . 71.8%).

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

		Number of options	Weighted average exercise price (\$)
Balance as at December 31, 2016 & March 31, 2017		9,500,000	0.15
Options Outstanding at March 31, 2017			
Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
0.15	9,500,000	0.15	3.59
Options Exercisable at March 31, 2017			
Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
0.15	3,166,669	0.15	3.59

**(e) 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	
	2017	2016
Weighted average common shares . basic and diluted	<b>54,885,407</b>	54,885,407

Options were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

**9) FINANCIAL INSTRUMENTS**

As at March 31, 2017 the following financial instruments were denominated in currencies other than the Canadian dollar:

	March 31, 2017		December 31, 2016	
	US dollar (\$000s)	Indonesia Rupiah (000s)	US dollar (\$000s)	Indonesia Rupiah (000s)
Cash and cash equivalents	21,493	1,898,535	22,678	592,131
Accounts receivable	29	-	22	-
Deposits	3,182	-	195	39,352,266
Accounts payable and accrued liabilities	(260)	(10,280,802)	(231)	(8,022,734)
Net exposure in foreign currency	24,444	(8,382,267)	22,664	31,921,663
Net exposure in Canadian dollars <sup>(1)</sup> (\$000s)	35,571	(843,729)	30,434	3,217

(1) Translated at March 31, 2017 and December 31, 2016 exchange rates.

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
*(Expressed in Canadian dollars, unless otherwise noted)*  
*(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 March 31:

As at: (\$000s)	March 31, 2017				December 31, 2016			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Property, plant and equipment	-	-	522	522	-	-	525	525
Exploration and evaluation	-	6,787	83,545	90,332	-	6,141	83,305	89,446
Other assets	33,537	5,097	43,950	82,584	32,990	4,824	46,607	84,421
<b>Total assets</b>	<b>33,537</b>	<b>11,884</b>	<b>128,017</b>	<b>173,438</b>	<b>32,990</b>	<b>10,965</b>	<b>130,437</b>	<b>174,392</b>

  

Three Months Ended: (\$000s)	March 31, 2017				March 31, 2016			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Interest revenue	-	-	59	59	-	-	46	46
Total net revenue	-	-	59	59	-	-	46	46
Loss from joint venture	178	-	-	178	558	-	-	558
Amortization and depreciation	-	-	13	13	-	1	16	17
Exploration	-	5	-	5	-	114	-	114
Exploration and evaluation expense	-	222	-	222	-	-	-	-
General and administrative	15	499	568	1,082	8	170	472	650
Stock based compensation	-	-	97	97	-	-	160	160
Foreign exchange (gain) loss	-	(23)	236	213	-	(72)	1,187	1,115
Total expenses	193	703	914	1,810	566	213	1,835	2,614
Current income tax expense (recovery)	-	-	(148)	(148)	-	-	581	581
Deferred income tax recovery	-	-	(54)	(54)	-	-	(926)	(926)
Total taxes	-	-	(202)	(202)	-	-	(345)	(345)
Net loss attributable to:								
Common shareholders	(193)	(703)	(618)	(1,514)	(566)	(213)	(1,442)	(2,221)
Non-controlling interest	-	-	(35)	(35)	-	-	(2)	(2)
Total net loss	(193)	(703)	(653)	(1,549)	(566)	(213)	(1,444)	(2,223)
Capital expenditures	-	702	235	937	-	555	1,071	1,626

## 11) COMMITMENTS

As at March 31, 2017 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 <sup>(1)</sup> (\$000s)
<b>Thailand Joint Venture</b>			
Concession L53	▪ Surface reservation fee <sup>(2)</sup>	January 2021	-
<b>Total Thailand</b>			-
<b>Indonesia</b>			
East Jabung <sup>(3) (4)</sup>	▪ Geological studies	November 2017	19
	▪ Drill two exploration wells	November 2017	1,961
<b>Total Indonesia</b>			1,980
<b>Canadian Heavy Oil Sands – Andora Energy Corporation</b>			
Sawn Lake, Alberta	▪ Natural gas pipeline tie-in and tariff (\$12 thousand per month)	2017	110
	▪ Natural gas pipeline tie-in and tariff (\$12 thousand per month)	October 2018	122
<b>Total Canada</b>			232
			<b>2,212</b>

(1) Translated at March 31, 2017 exchange rates from the source currency in which the commitments were denominated in.

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

(3) The financial commitments for the East Jabung PSC in Indonesia as presented above represent the requisite firm exploration work program pursuant to the PSC. In November 2016 the operator applied to the GOI for an extension to November 2017 to complete the commitments of the East Jabung PSC. A work program is submitted to the GOI annually for approval, in conjunction with the request for any required extension of the exploration period and the determination of any additional commitments. Although extension of the deadline for completion of the exploration work program is a departure from the original contract, it is considered standard practice in Indonesia. In the past, such applications have been approved by the GOI and management has no reason to believe that future requests will not be granted approval; however, there is no guarantee. Depending on the stage of the PSC, failure to fulfill the required firm commitments may also result in penalty payment equal to the unfulfilled commitments and/or forfeiture of the PSC.

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

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

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

## 12) CONTINGENCIES

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

The Tax Directorate General of Indonesia assessed several oil and gas companies operating in Indonesia for 2012, 2013 and 2014 Land and Building Tax using a new framework which is being challenged by the impacted oil and gas companies in Indonesia. Pan Orient was issued a Tax Assessment and Notification for the East Jabung PSC for 78,705 million Indonesian rupiah or \$7.9 million when translated at the March 31, 2017 exchange rate. The Land and Building Tax assessments related to sub-surface assessments for 2012, 2013 and 2014 and a surface assessment for 2013. The potential accrued penalty for the unpaid tax to the end of the period was an additional \$2.8 million. Of the total amount for the assessed Land and Building Tax and penalty of \$10.7 million, \$10.0 million is associated with the 2013 assessment on the Company's offshore acreage which the Company applied to voluntarily relinquish in the fourth quarter of 2013 and the relinquishment was finalized in 2014.

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

With respect to the 2013 surface tax assessment on the Company's offshore acreage of \$10.0 million including accrued penalties, management believes that the Company has a strong technical position against the taxes assessed and has not recorded any provision in the consolidated financial statements.

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

In the event the Company loses its appeal for the surface or sub-surface tax assessments, it has the option to further appeal to a higher court level which may take three years to deliver a verdict. Regardless of the Company's decision to appeal to a higher court, in the event that it loses at the Tax Court stage it will be required to pay the total taxes less the already paid 50% deposit. The Company would also be required to pay an additional penalty up to a maximum of \$2.8 million should it lose the appeal. If the Company then succeeds in its appeal to a higher court it will be entitled to a refund of all taxes and penalties paid after the Tax Court decision.

In the second quarter of 2015 Pan Orient completed the transfer of a 51% interest and operatorship of the East Jabung PSC. The Company is responsible for 100% of the contingency of the Land and Building Tax obligation of the East Jabung PSC.



**PAN ORIENT ENERGY CORP.**

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