



**PAN ORIENT ENERGY CORP.**

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

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

(\$000s)	September 30 2016	December 31 2015
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	46,960	66,170
Accounts receivable	413	1,369
Taxes receivable (note 7)	-	12,507
	<b>47,373</b>	80,046
<b>Deposits</b>	<b>4,303</b>	4,259
<b>Investment in joint venture</b> (note 3)	<b>33,316</b>	35,088
<b>Property, plant and equipment</b> (note 4)	<b>539</b>	581
<b>Exploration and evaluation</b> (note 5)	<b>188,206</b>	190,322
<b>Total assets</b>	<b>273,737</b>	310,296
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	1,591	4,678
Taxes payable (note 7)	140	467
	<b>1,731</b>	5,145
<b>Deferred tax liabilities</b>	<b>9,135</b>	10,165
<b>Decommissioning provision</b> (note 6)	<b>1,473</b>	1,335
<b>Total liabilities</b>	<b>12,339</b>	16,645
<b>Shareholders' equity</b>		
Share capital (note 8)	91,816	113,770
Contributed surplus	25,670	25,316
Non-controlling interest	17,128	17,169
Accumulated other comprehensive income	21,701	27,625
Retained earnings	105,083	109,771
<b>Total shareholders' equity</b>	<b>261,398</b>	293,651
<b>Total liabilities and shareholders' equity</b>	<b>273,737</b>	310,296

**Commitments** (note 11)

**Contingencies** (note 12)

See accompanying notes to the condensed interim consolidated financial statements.

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

(\$000s, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<b>Revenue</b>				
Oil	-	-	-	809
Royalties	-	-	-	(38)
Interest	51	31	127	118
	<b>51</b>	<b>31</b>	<b>127</b>	<b>889</b>
<b>Expenses</b>				
Loss from investment in joint venture (note 3)	365	481	1,316	1,064
Production and operating	-	-	-	257
Transportation	-	-	-	24
Depletion and depreciation	14	43	46	1,049
Exploration (note 5)	4	112	932	406
General and administrative	726	867	2,113	3,288
Stock-based compensation	96	341	354	1,450
Impairment	-	-	-	2,329
Foreign exchange (gain) loss	(247)	(3,482)	846	(4,050)
Gain on disposition of Thailand interest	-	-	-	(38,471)
	<b>958</b>	<b>(1,638)</b>	<b>5,607</b>	<b>(32,654)</b>
<b>Income (loss) before taxes and non-controlling interest</b>	<b>(907)</b>	<b>1,669</b>	<b>(5,480)</b>	<b>33,543</b>
<b>Taxes</b>				
Current income tax expense (recovery)	(132)	-	279	456
Deferred income tax expense (recovery)	119	(671)	(1,030)	189
	<b>(13)</b>	<b>(671)</b>	<b>(751)</b>	<b>645</b>
<b>Net income (loss)</b>	<b>(894)</b>	<b>2,340</b>	<b>(4,729)</b>	<b>32,898</b>
<b>Other comprehensive income (loss)</b>				
Foreign exchange gain (loss) on translation of foreign operations	1,832	7,775	(5,600)	18,274
Foreign exchange gain (loss) on translation of joint venture	779	70	(324)	(1,292)
<b>Total other comprehensive income (loss)</b>	<b>2,611</b>	<b>7,845</b>	<b>(5,924)</b>	<b>16,982</b>
<b>Total comprehensive income (loss)</b>	<b>1,717</b>	<b>10,185</b>	<b>(10,653)</b>	<b>49,880</b>
<b>Net income (loss) attributable to:</b>				
Common shareholders	(876)	2,341	(4,688)	33,033
Non-controlling interest	(18)	(1)	(41)	(135)
<b>Net income (loss)</b>	<b>(894)</b>	<b>2,340</b>	<b>(4,729)</b>	<b>32,898</b>
<b>Total comprehensive income (loss) attributable to:</b>				
Common shareholders	1,735	10,186	(10,612)	50,015
Non-controlling interest	(18)	(1)	(41)	(135)
<b>Total comprehensive income (loss)</b>	<b>1,717</b>	<b>10,185</b>	<b>(10,653)</b>	<b>49,880</b>
<b>Net income (loss) per share attributable to common shareholders (note 8)</b>				
Basic and diluted	\$ (0.02)	\$ 0.04	\$ (0.09)	\$ 0.59

See accompanying notes to the condensed interim consolidated financial statements.

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

(\$000s)	Share Capital	Contributed Surplus	NCI	AOCI	Retained Earnings	Total
Balance as at December 31, 2014	117,656	22,362	17,309	14,180	80,718	252,225
Net income (loss)	-	-	(135)	-	33,033	32,898
Stock-based compensation expense	-	1,450	-	-	-	1,450
Capitalized stock-based compensation	-	17	-	-	-	17
Normal course issuer bid	(3,886)	1,195	-	-	-	(2,691)
Other comprehensive income	-	-	-	16,982	-	16,982
Disposition of Thailand interest	-	-	-	(8,486)	-	(8,486)
<b>Balance as at September 30, 2015</b>	<b>113,770</b>	<b>25,024</b>	<b>17,174</b>	<b>22,676</b>	<b>113,751</b>	<b>292,395</b>
Balance as at December 31, 2015	113,770	25,316	17,169	27,625	109,771	293,651
Net loss	-	-	(41)	-	(4,688)	(4,729)
Stock-based compensation expense	-	354	-	-	-	354
Special distribution	(21,954)	-	-	-	-	(21,954)
Other comprehensive loss	-	-	-	(5,924)	-	(5,924)
<b>Balance as at September 30, 2016</b>	<b>91,816</b>	<b>25,670</b>	<b>17,128</b>	<b>21,701</b>	<b>105,083</b>	<b>261,398</b>

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		Nine Months Ended	
	September 30		September 30	
	2016	2015	2016	2015
<b>Cash Provided From (Used in)</b>				
<b>Operating Activities</b>				
Net income (loss)	(894)	2,340	(4,729)	32,898
Adjustments for non-cash items:				
Deferred tax expense (recovery)	119	(671)	(1,030)	189
Depletion and depreciation	14	43	46	1,049
Stock-based compensation	96	341	354	1,450
Accretion	5	6	14	22
Loss from investment in joint venture (note 3)	365	481	1,316	1,064
Impairment	-	-	-	2,329
Gain on disposition of Thailand interest	-	-	-	(38,471)
Changes in non-cash working capital	6,674	1,553	12,567	829
Cash flow from operating activities	6,379	4,093	8,538	1,359
<b>Investing Activities</b>				
Property, plant and equipment	(4)	-	(4)	(62)
Exploration and evaluation	(1,007)	(8,074)	(3,470)	(12,692)
Net proceeds on disposition of Thailand interest	-	-	-	52,028
Cash and cash equivalents disposed on sale of Thailand interest	-	-	-	(5,081)
Dispositions of exploration and evaluation assets	-	-	105	9,764
Deposits	(112)	41	(44)	(67)
Change in amounts due from Joint Venture	65	(54)	132	(98)
Changes in non-cash working capital	338	2,749	(2,518)	2,607
Cash flow from (used in) investing activities	(720)	(5,338)	(5,799)	46,399
<b>Financing Activities</b>				
Special distribution	-	-	(21,954)	-
Normal course issuer bid	-	(680)	-	(2,691)
Cash flow used in financing activities	-	(680)	(21,954)	(2,691)
<b>Change in cash and cash equivalents</b>	<b>5,659</b>	<b>(1,925)</b>	<b>(19,215)</b>	<b>45,067</b>
<b>Effect of foreign exchange on cash and cash equivalents</b>	<b>104</b>	<b>530</b>	<b>5</b>	<b>(169)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>41,197</b>	<b>73,150</b>	<b>66,170</b>	<b>26,857</b>
<b>Cash and cash equivalents, end of period</b>	<b>46,960</b>	<b>71,755</b>	<b>46,960</b>	<b>71,755</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. (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 September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2015. The following disclosures are incremental to those included with the annual consolidated financial statements. Certain disclosures that are normally required in the notes to the annual consolidated financial statements have been condensed or omitted. The interim condensed consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements.

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

The interim condensed consolidated financial statements were approved by the Company's Board of Directors on November 15, 2016.

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
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**3) INVESTMENT IN JOINT VENTURE**

On February 2, 2015 the Company sold a 49.99% equity interest in its subsidiary Pan Orient Energy (Siam) Ltd. and retained a 50.01% equity interest in the company. The Company's retained interest in Pan Orient Energy (Siam) Ltd. is considered a Joint Venture under IFRS and is accounted for using the equity method. Distributions received from the joint venture reduce the carrying amount of the investment whereas funding to the joint venture increase the carrying amount. The Company's profit or loss includes its share of the joint venture's profit or loss and the Company's other comprehensive income includes its share of the joint venture's other comprehensive income or loss.

<b>Nine months ended:</b> (\$000s)	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
Investment in joint venture, beginning of period	35,088	-
Investment in joint venture retained	-	38,587
Change in amounts due from joint venture	(132)	98
Net loss from joint venture, after tax	(1,316)	(1,064)
Foreign currency translation	(324)	(1,292)
Investment in joint venture, end of period	33,316	36,329

Pan Orient Energy (Siam) Ltd. Summarized Financial Information (\$000s)	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
Current assets	6,121	3,528
Non-current assets	66,048	74,733
Current liabilities	(856)	(2,472)
Non-current liabilities	(18,520)	(21,184)
Net assets	52,793	54,605
<b>Pan Orient's Investment in Joint Venture</b>		
Pan Orient's share of net assets	26,399	27,307
Fair value adjustment on initial recognition	8,924	8,924
Amortization of fair value adjustment on initial recognition	(584)	-
Change in amounts due from Joint Venture, since initial recognition	(1,423)	98
Investment in joint venture	33,316	36,329

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
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The Company's share of income or loss from the joint venture is as follows:

Pan Orient Energy (Siam) Ltd. Summarized Statement of Comprehensive Income (loss) (\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Oil revenue	2,201	3,115	6,038	9,055
Royalties	(107)	(154)	(298)	(446)
Interest income	-	1	11	12
Total net revenue	2,094	2,962	5,751	8,621
Production and operating	501	719	1,537	2,252
Transportation	65	87	204	236
Depletion and depreciation	2,402	3,827	7,534	9,832
General and administrative	351	344	1,086	1,179
Foreign exchange gain (loss)	(1)	70	(1)	3,024
Total expenses	3,318	5,047	10,360	16,523
Loss before income taxes	(1,224)	(2,085)	(4,609)	(7,902)
Current income tax	-	-	1	1
Deferred income tax recovery	(639)	(1,122)	(2,432)	(2,525)
Total tax recovery	(639)	(1,122)	(2,431)	(2,524)
Net loss	(585)	(963)	(2,178)	(5,378)
Other comprehensive income (loss)	1,557	139	(649)	2,389
Total comprehensive loss	972	(824)	(2,827)	(2,989)
<b>Pan Orient's share of income (loss), consolidated into financial statements, up to February 1, 2015 (100% net to Pan Orient)</b>				
Pan Orient's share of net loss	-	-	-	(296)
Pan Orient's share of other comprehensive income	-	-	-	4,975
<b>Pan Orient's share of loss from joint venture under equity method, subsequent to February 1, 2015 (50.01% net to Pan Orient)</b>				
Pan Orient's share of net loss	(292)	(481)	(1,089)	(1,064)
Amortization of fair value adjustment	(73)	-	(227)	-
Net loss from Joint Venture	(365)	(481)	(1,316)	(1,064)
Pan Orient's share of other comprehensive income (loss)	779	70	(324)	(1,292)



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

**4) PROPERTY, PLANT AND EQUIPMENT**

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

(\$000s)	Indonesia	Canada	Total
<b>Cost</b>			
At December 31, 2015	273	1,348	1,621
Additions	-	4	4
Foreign currency translation	(3)	-	(3)
At September 30, 2016	270	1,352	1,622
<b>Accumulated depletion and depreciation</b>			
At December 31, 2015	(272)	(768)	(1,040)
Depletion and depreciation	(1)	(45)	(46)
Foreign currency translation	3	-	3
At September 30, 2016	(270)	(813)	(1,083)
<b>Net book value</b>			
At December 31, 2015	1	580	581
At September 30, 2016	-	539	539

**5) EXPLORATION AND EVALUATION**

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

(\$000s)	Indonesia	Canada	Total
At December 31, 2015	109,165	81,157	190,322
Additions	1,670	1,800	3,470
Changes in decommissioning provision	-	125	125
Dispositions	-	(105)	(105)
Foreign currency translation	(5,606)	-	(5,606)
At September 30, 2016	105,229	82,977	188,206

General and administrative costs totaling \$1.3 million (September 30, 2015 - \$1.7 million) and stock-based compensation totaling nil (September 30, 2015 - \$17 thousand) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

In the second quarter of 2016, \$0.8 million of legal and arbitration costs incurred in Indonesia for a dispute with a vendor over work performed at the Citarum PSC was expensed as Exploration expense.

As at September 30, 2016 Andora's Sawn Lake steam assisted gravity drainage (SAGD) demonstration project has not yet proven that it is commercially viable and all related costs and revenues are being capitalized as E&E assets until commercial viability is achieved. Commercial viability is determined based on several factors including the assignment of proven and probable reserves. Upon being determined commercially viable the related E&E assets will be tested for impairment and reclassified to property, plant and equipment where they will be depleted.

Recoverability of the capitalized costs is dependent on successfully completing development of the properties. With respect to the Canadian properties, recoverability is also dependent on determining the technical feasibility of the project. Capitalized costs incurred to date do not necessarily represent present or future values.

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

**6) DECOMMISSIONING PROVISION**

(\$000s)	Indonesia	Canada	Total
Decommissioning provision, beginning of period	42	1,293	1,335
Revisions to obligations	-	125	125
Accretion	-	14	14
Foreign currency translation	(1)	-	(1)
Decommissioning provision, end of period	41	1,432	1,473

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 (September 30, 2015 . \$2.0 million). Payments to settle the provision will be made over the operating lives of the underlying assets and are estimated to be incurred between 2016 and 2050. Estimated costs have been discounted at the risk-free interest rate in the jurisdiction in which the expenditure is expected to be incurred which averaged at 1% at September 30, 2016 (September 30, 2015 . 2%).

**7) TAXES**

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

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

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

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

A summary of Canadian taxes receivable (payable) at September 30, 2016 is as follows:

(\$000s)	September 30, 2016
Canadian taxes receivable, beginning of period	12,507
Tax refund received	(12,368)
Current income tax expense	(279)
Canadian taxes payable, end of period	(140)

**8) SHARE CAPITAL**

**(a) Authorized**

Unlimited Common Voting Shares  
 Unlimited Preferred Shares

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

Common Shares	Shares Outstanding	Amount (\$000s)
Balance as at December 31, 2015	54,885,407	\$ 113,770
Special distribution	-	(21,954)
Balance as at September 30, 2016	54,885,407	\$ 91,816

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

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

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

On February 16, 2016, the Company paid a \$0.40 per share return of capital special distribution and reduced the exercise price of all outstanding options by \$0.40 pursuant to an adjustment provision in the Company's stock option plan.

<b>Options Outstanding at September 30, 2016</b>				<b>Options Exercisable at September 30, 2016</b>		
Exercise Price <sup>(1)</sup> (\$)	Number of Options	Weighted Average Exercise Price <sup>(1)</sup> (\$)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price <sup>(1)</sup> (\$)	Weighted Average Remaining Contractual Life (years)
0.89 . 1.00	250,000	0.89	3.92	166,666	0.89	3.92
1.01 . 1.50	2,195,000	1.43	3.35	1,463,334	1.43	3.35
1.51 . 2.00	1,011,000	1.52	2.17	1,011,000	1.52	2.17
2.01 . 2.57	1,535,000	2.32	0.93	1,535,000	2.32	0.93
0.89 . 2.57	4,991,000	1.69	2.40	4,176,000	1.76	2.20

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

**(d) Share Appreciation Rights**

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

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

**(e) Andora Energy Corporation**

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

As at September 30, 2016 Andora had 100.1 million (December 31, 2015 . 100.1 million) common shares issued and outstanding of which Pan Orient held 71.8% (December 31, 2015 . 71.8%).

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
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**ii) Options to Purchase Common Shares of Andora**

	Number of options	Weighted average exercise price (\$)
Balance as at December 31, 2015	9,552,035	0.60
Expired	(9,112,035)	0.60
Balance as at September 30, 2016	440,000	0.60

Options Outstanding at September 30, 2016				Options Exercisable at September 30, 2016		
Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
0.60	440,000	0.60	0.06	440,000	0.60	0.06

Subsequent to September 30, 2016, the 440,000 options to purchase common shares of Andora that were outstanding as at September 30, 2016 expired on October 23, 2016. On November 1, 2016, Andora granted options to its directors and officers to purchase an aggregate of 9,500,000 of Andora's common shares under Andora's stock option plan. Each option has an exercise price of \$0.15, vests as to one-third on the grant date and one-third on each of the first and second anniversaries of the grant date and these options have a contractual life of 4 years.

**(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 September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Weighted average common shares . basic and diluted	<b>54,885,407</b>	55,202,287	<b>54,885,407</b>	56,000,516

Options to purchase 4,991,000 common shares outstanding at September 30, 2016 (September 30, 2015 . 5,006,000) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

**9) FINANCIAL INSTRUMENTS**

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

	September 30, 2016		December 31, 2015	
	US dollar (\$000s)	Indonesia Rupiah (000s)	US dollar (\$000s)	Indonesia Rupiah (000s)
Cash and cash equivalents	22,862	776,448	38,930	828,904
Accounts receivable	25	-	24	-
Deposits	191	39,352,266	585	39,322,758
Accounts payable and accrued liabilities	(256)	(7,261,127)	(2,635)	(5,230,002)
Taxes payable	-	-	(337)	-
Net exposure in foreign currency	<b>22,822</b>	<b>32,867,587</b>	36,567	34,921,660
Net exposure in Canadian dollars <sup>(1)</sup> (\$000s)	<b>29,937</b>	<b>3,344</b>	50,604	3,529

(1) Translated at September 30, 2016 and December 31, 2015 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 September 30:

As at: (\$000s)	September 30, 2016				December 31, 2015			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Property, plant and equipment	-	-	539	539	-	1	580	581
Exploration and evaluation	-	105,229	82,977	188,206	-	109,165	81,157	190,322
Other assets	33,460	4,731	46,801	84,992	35,109	5,636	78,648	119,393
<b>Total assets</b>	<b>33,460</b>	<b>109,960</b>	<b>130,317</b>	<b>273,737</b>	<b>35,109</b>	<b>114,802</b>	<b>160,385</b>	<b>310,296</b>

  

Nine Months Ended: (\$000s)	September 30, 2016				September 30, 2015			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Oil revenue	-	-	-	-	809	-	-	809
Royalties	-	-	-	-	(38)	-	-	(38)
Interest revenue	-	-	127	127	1	-	117	118
<b>Total net revenue</b>	<b>-</b>	<b>-</b>	<b>127</b>	<b>127</b>	<b>772</b>	<b>-</b>	<b>117</b>	<b>889</b>
Loss from joint venture	1,316	-	-	1,316	1,064	-	-	1,064
Production and operating	-	-	-	-	257	-	-	257
Transportation	-	-	-	-	24	-	-	24
Depletion and depreciation	-	1	45	46	943	46	60	1,049
Exploration	-	932	-	932	-	406	-	406
General and administrative	27	406	1,680	2,113	202	1,248	1,838	3,288
Stock based compensation	-	-	354	354	-	-	1,450	1,450
Impairment	-	-	-	-	-	2,329	-	2,329
Foreign exchange (gain) loss	-	(15)	861	846	8	805	(4,863)	(4,050)
Gain on disposition of Thailand interests	-	-	-	-	-	-	(38,471)	(38,471)
<b>Total expenses</b>	<b>1,343</b>	<b>1,324</b>	<b>2,940</b>	<b>5,607</b>	<b>2,498</b>	<b>4,834</b>	<b>(39,986)</b>	<b>(32,654)</b>
Current income tax	-	-	279	279	-	456	-	456
Deferred income tax expense (recovery)	-	-	(1,030)	(1,030)	(340)	-	529	189
<b>Total taxes</b>	<b>-</b>	<b>-</b>	<b>(751)</b>	<b>(751)</b>	<b>(340)</b>	<b>456</b>	<b>529</b>	<b>645</b>
Net income (loss) attributable to:								
Common shareholders	(1,343)	(1,324)	(2,021)	(4,688)	(1,386)	(5,290)	39,709	33,033
Non-controlling interest	-	-	(41)	(41)	-	-	(135)	(135)
<b>Total net income (loss)</b>	<b>(1,343)</b>	<b>(1,324)</b>	<b>(2,062)</b>	<b>(4,729)</b>	<b>(1,386)</b>	<b>(5,290)</b>	<b>39,574</b>	<b>32,898</b>
Capital expenditures	-	1,670	1,804	3,474	60	8,728	3,966	12,754

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

Three Months Ended: (\$000s)	September 30, 2016				September 30, 2015			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Interest revenue	-	-	51	51	-	-	31	31
Total net revenue	-	-	51	51	-	-	31	31
Loss from joint venture	365	-	-	365	481	-	-	481
Depletion and depreciation	-	-	14	14	-	25	18	43
Exploration	-	4	-	4	-	112	-	112
General and administrative	13	143	570	726	12	462	393	867
Stock based compensation	-	-	96	96	-	-	341	341
Foreign exchange (gain) loss	-	(5)	(242)	(247)	-	665	(4,147)	(3,482)
Total expenses	378	142	438	958	493	1,264	(3,395)	(1,638)
Current income tax recovery	-	-	(132)	(132)	-	-	-	-
Deferred income tax expense (recovery)	-	-	119	119	-	-	(671)	(671)
Total taxes	-	-	(13)	(13)	-	-	(671)	(671)
Net income (loss) attributable to:								
Common shareholders	(378)	(142)	(356)	(876)	(493)	(1,264)	4,098	2,341
Non-controlling interest	-	-	(18)	(18)	-	-	(1)	(1)
Total net income (loss)	(378)	(142)	(374)	(894)	(493)	(1,264)	4,097	2,340
Capital expenditures	-	763	248	1,011	-	7,175	899	8,074

## 11) COMMITMENTS

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

Country and Concession Name	Remaining Work Program Commitment	Obligation Ending	Estimated Net Financial Commitment
			CAD <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 2016	66
	▪ Drill two exploration wells	November 2016	1,934
<b>Total Indonesia</b>			2,000
<b>Canadian Heavy Oil Sands – Andora Energy Corporation</b>			
Sawn Lake, Alberta	▪ Natural gas pipeline tie-in and tariff (\$12 thousand per month)	2016	37
	▪ Natural gas pipeline tie-in and tariff (\$12 thousand per month)	2017	147
	▪ Natural gas pipeline tie-in and tariff (\$12 thousand per month)	October 2018	122
<b>Total Canada</b>			306
			<b>2,306</b>

(1) Translated at September 30, 2016 exchange rates from the source currency in which commitments were denominated in.

(2) The original nine year exploration period for Concession L53 expired on January 7, 2016. The Government of Thailand has approved a 215.87 square kilometer "reserved area" 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 year from January 8, 2016 to January 7, 2017 has been paid and is included in the Company's Investment in Joint Venture in the consolidated statement of financial position.

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

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

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

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

## 12) CONTINGENCIES

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 \$8.0 million when translated at the September 30, 2016 exchange rate. The Land and Building Tax assessments related to sub-surface assessments for 2012, 2013 and 2014 and a surface assessment for 2013. The potential accrued penalty for the unpaid tax to the end of the period was an additional \$2.8 million. Of the total amount for the assessed Land and Building Tax and penalty of \$10.8 million, \$10.1 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 \$4.0 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 \$10.1 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 \$2.9 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.





**PAN ORIENT ENERGY CORP.**  
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