PAN ORIENT ENERGY CORP.

2008 MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is prepared effective April 17, 2009, and should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2008 and December 31, 2007. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP).

Pan Orient Energy Corp. ("Pan Orient" or the "Company") is a junior oil and natural gas company based in Calgary, Alberta, with properties in northern Alberta, onshore Thailand and onshore Indonesia.

FORWARD-LOOKING STATEMENTS

The MD&A contains forward-looking statements within the meaning of securities laws, including the "safe harbour" provisions of Canadian securities legislation. Forward-looking statements and information concerning anticipated financial performance are based on management's assumptions using information currently available. Material factors or assumptions used to develop forward-looking information include potential business prospects, growth strategies, the ability to add production and reserves through development and exploration activities, projected capital costs, government legislation, well performance, the ability to market production, the commodity price environment and quality differentials and exchange rates. Although management considers its assumptions to be reasonable based on these factors, they may prove to be incorrect.

Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "assume", "believe", "estimate", "expect", "forecast", "guidance", "may", "plan", "predict", "project", "should", "will", or similar words suggesting future outcomes. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to reserves, future production volumes, royalty and tax obligations, production expenses, general and administrative expenses, future income taxes, and future exploration and development activities and the related expenditures.

Because forward-looking information addresses future events and conditions, it involves risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking information. These risks and uncertainties include, but are not limited to: commodity price volatility; well performance and marketability of production; transportation and refining availability and costs; exploration and development costs; the recoverability of reserves; the Company's ability to add reserves through development and exploration activities; fluctuations in currency exchange rates; and changes in government legislation and regulations, including royalty and tax laws.

The forward-looking statements contained herein are as of April 17, 2009 and are subject to change after this date. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive and as such undue reliance should not be placed on forward-looking statements. Except as required by applicable securities laws, with the exception of events or circumstances that occurred during the period to which the MD&A relates that are reasonably likely to cause actual results to differ materially from material forward-looking information for a period that is not yet complete that was previously disclosed to the public, the Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

NON-GAAP MEASURES

Management uses and reports certain non-GAAP measures in the evaluation of operating and financial performance. Unless identified as a non-GAAP measure in this section all amounts presented in this MD&A are calculated in accordance with GAAP.

Funds flow from operations (funds flow), which represents cash flow from operating activities prior to changes in non-cash working capital is used by the Company to evaluate operating performance, leverage and liquidity. The following table reconciles funds flow from operations to cash flow from operating activities which is the most directly comparable measure calculated in accordance with GAAP:

	Three Months Ended December 31		**Year Ended December 31**	
($000s)	**2008**	2007	**2008**	2007
Cash flow from operating activities	**36,280**	1,471	**117,234**	1,758
Changes in non-cash working capital	**(11,307)**	6,471	**(53,337)**	10,095
Funds flow from operations	**24,973**	7,942	**63,897**	11,853

Operating netback is calculated as average unit sales price less royalties, transportation costs and operating expenses. Corporate netback includes interest revenue and further deducts administrative expenses realized foreign exchange, foreign venture expenditures and cash taxes. Operating netback represents the cash margin for every barrel of oil equivalent sold and is a common benchmark used in the oil and gas industry. There is no GAAP measure that is reasonably comparable to netbacks. These calculations are presented in “Production and Corporate Netbacks”.

The above measures do not have standardized meanings prescribed by Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers.

PETROLEUM AND NATURAL GAS PROPERTIES

The Company’s principal properties are divided into three distinct groups: partially developed concessions located on-shore Thailand, undeveloped interests on-shore Indonesia and Canadian oil sand leases. Pan Orient is continually pursuing other oil and natural gas exploration acreage in Asia.

Thailand

The Company has interests in four concessions in Thailand; License SW1A (SW1A), License 44/43 (L44), License 33/43 (L33) and License 53/48 (L53). Pan Orient is the operator for all four concessions with a 60% working interest in the first three and a 100% working interest in the fourth. Currently all of the Company’s production is crude oil and is sold to a refinery owned by the Thai National Oil Company. Proved plus probable reserves at December 31, 2008, as evaluated by independent reserve engineers, were 25.0 MMbbl net to Pan Orient.

Indonesia

During 2008 the Company acquired all of the issued and outstanding shares of three privately-held companies with interests in Indonesia. These entities hold a 90% operated working interest in the Batu Gajah Production Sharing Contract (PSC) located onshore south Sumatra, a 69% operated working interest in the Citarum PSC located onshore West Java and a 90% operated interest in a joint study located onshore Sumatra, which subsequently became the South CPP PSC.

The Citarum PSC block has one previously-drilled well, Pasundan-1, which the Company tested in late 2008 and subsequently abandoned. Seismic programs are currently in progress on Citarum and Batu Gajah, with drilling expected to commence in 2010. See "Commitments and Contingencies" for details of the Company's work requirements with respect to these PSCs.

Canada

Through its 53.2% ownership of the privately-held Andora Energy Corporation (Andora), Pan Orient has interests in heavy oil sand leases at Sawn Lake, within the central Alberta Peace River Oil Sands area. During 2008 Pan Orient's interest in Andora was diluted from 55.4% and as a result, capital assets were reduced by $3.6 million.

The property is in the pre-production stage and Andora is currently waiting approval from the Alberta Energy Resources Conservation Board (ERCB) to build and operate a Steam Assisted Gravity Drainage (SAGD) demonstration project. The proposed project includes a single well pair designed for peak anticipated production rates of 750 bbl/d. Given the current oil price environment it is most likely the decision by Andora to proceed with the demonstrated project will be deferred to 2010.

Probable reserves at December 31, 2008, as evaluated by independent reserve engineers, were 132.1 MMbbl net to Andora (70.3 MMbbl net to Pan Orient).

PRODUCTION AND NETBACKS

	Three Months Ended December 31		Year Ended December 31	
	2008	2007	**2008**	2007
Oil revenue ($000s)	**36,329**	15,435	**147,554**	24,034
Average daily production (bbls/d)	**6,982**	2,320	**4,947**	974
Operating and corporate netback ($)				
Realized oil price	**56.56**	72.32	**81.50**	67.60
Royalties	**(4.55)**	(4.36)	**(5.71)**	(4.38)
Operating expenses	**(1.74)**	(2.61)	**(2.11)**	(5.69)
Transportation expenses	**(2.42)**	(2.38)	**(2.51)**	(2.43)
TOTAL OPERATING NETBACK	**47.85**	62.97	**71.17**	55.10
Interest income	**0.66**	1.09	**0.54**	1.62
General & administrative expenses	**(2.26)**	(5.09)	**(3.03)**	(8.90)
Foreign new venture expenditures	**(0.17)**	-	**(0.40)**	(0.11)
Special remuneratory benefit (SRB)	**(9.90)**	-	**(19.60)**	-
Income tax	**(6.92)**	(21.76)	**(16.63)**	(13.07)
Realized foreign exchange	**9.62**	-	**3.24**	(1.29)
TOTAL CASH NETBACK	**38.88**	37.21	**35.29**	33.35

For Thailand, for the year ended December 31, 2008, the amounts paid to the Thai government (royalties, SRB and income tax) totaled 51% of total revenue and 7% were allocated to other expenses thus leaving 42% net to Pan Orient.

Because of the Company's low G&A and operating cost structure, during the 2008 year the Company had a total corporate cash netback of $35.29/bbl or 43% of gross revenues.

The Company's productions revenues are dependent upon oil prices which are dictated by global supply and demand. World oil prices in 2008 were volatile, reaching all-time record highs mid-year before falling in the second half of the year to close below $45.00/bbl USD. The Company's oil production is sold at daily spot and includes a discount for the high paraffin nature of the oil.

Although the Company's sales price is tied to a basket of products, since the July 2008 renegotiation of the sales contracts with the Thai government, the Company's sales price has averaged approximately 85% of the WTI price.

Revenue for the fourth quarter of 2008 was up 135% from the same period in 2007 and up 514% for 2008 compared to 2007. The 2008 increase in revenue is largely attributable to significant production growth during the year.

The Company's successful drilling program in Na Sanun and Na Sanun East is entirely responsible for the 201% increase in daily average production from the fourth quarter of 2007 to the fourth quarter of 2008. Average daily production for the fourth quarter was 63% higher than the three months ended September 30, 2008. Production for the first quarter of 2009 is estimated to be 6,165 bbl/d. The reduction in production from the fourth quarter of 2008 is a result of wells coming off flush production and drilling programs in the past six months focusing on exploration targets versus development opportunities.

Pan Orient's operations have been unaffected by ongoing political events in Thailand.

ROYALTIES

	Three Months Ended December 31		Year Ended December 31	
	2008	2007	**2008**	2007
Royalties - $000s	**2,926**	931	**10,336**	1,557
Royalties - $/bbl	**4.55**	4.36	**5.71**	4.38
Royalties - % of revenue	**8.1**	6.0	**7.0**	6.5

The Company pays two types of royalties: 1) to the Thai government on all production volumes; and 2) a 10% gross overriding royalty (GORR) on a portion of production from the Wichian Buri oil field. The GORR is applicable to approximately 2% of the Company's total production and does not have a significant impact on the Company's overall royalty rate. The royalty rate paid to the Thai government is based on a sliding scale, ranging from 5% on production of less than 2,000 bbl/d to 15% on production in excess of 20,000 bbl/d per concession.

As a result of production additions and the corresponding revenue increases through the past year, total royalties increased significantly from 2007 to 2008, for both the three months and year ended December 31. Royalties as a percentage of revenue are higher in 2008 compared to 2007 due to higher oil prices and the higher rate charged by the Thai government for the Company's current production levels.

PRODUCTION EXPENSES

	Three Months Ended December 31		Year Ended December 31	
	2008	2007	**2008**	2007
($000s)				
Operating expenses	**1,114**	558	**3,809**	2,024
Transportation expenses	**1,557**	507	**4,551**	864
Total production expenses	**2,671**	1,065	**8,360**	2,888
($/bbl)				
Operating expenses	**1.74**	2.61	**2.11**	5.69
Transportation expenses	**2.42**	2.38	**2.51**	2.43
Total production expenses	**4.16**	4.99	**4.62**	8.12

Almost half of the Company's operating expenses relate to employee and consultant compensation and are substantially fixed. The number of individuals required to operate the Company's properties does not fluctuate with changes in production but more so with the number of wells and the geographical proximity of the wells. Therefore, the Company realizes significant economies of scale on its high volume wells, resulting in reduced unit operating expenses.

Transportation expenses represent the costs to truck the Company's oil production to the refinery near Bangkok and on a per barrel basis are generally consistent regardless of production volumes.

Total production expenses for the three months and year ended December 31, 2008 were higher than the respective periods of 2007 reflecting the growth in the Company's daily production levels. However, as production volumes increase relative to the fixed operating costs, the amounts per barrel continue to decline. In relation to the comparable periods of 2007, the costs per barrel were 16% lower for the three months ended December 31, 2008 and 43% lower for the year ended December 31, 2008.

DEPLETION, DEPRECIATION AND ACCRETION (DD&A)

	Three Months Ended December 31		Year Ended December 31	
	2008	2007	**2008**	2007
Depletion, depreciation and accretion – $000s	**7,327**	1,185	**18,369**	4,705
Depletion, depreciation and accretion – $/bbl	**11.41**	5.55	**10.15**	13.23

DD&A expense for the three months and year ended December 31, 2008 of $7.3 million and $18.4 million respectively, consists primarily of depletion of Pan Orient's Thai capital base. As the Company's Canadian and Indonesian assets are in the pre-production phase, depletion is not calculated for these cost centres. The increase in DD&A in 2008 reflects the Company's increasing production and capital base.

Total costs subject to depletion included $14.0 million of estimated future development costs for proved reserves and excluded from the depletable base was $13.8 million related to Thailand unproved properties.

FOREIGN EXCHANGE

The Company's reporting currency is the Canadian dollar and its functional currencies are the Canadian dollar, the Thai Baht and the US dollar. Each reporting period, the change in the values of the Baht and US dollar relative to the Company's reporting currency must be recognized. In accordance with GAAP, exchange gains or losses on assets and liabilities held in Canada are included in earnings and translation gains or losses from the Company's self-sustaining Thailand and Indonesia entities are recorded in other comprehensive income. As the parent Company realizes its investment, the proportionate amount of translation gains and losses in accumulated other comprehensive income is transferred to earnings and included in the foreign exchange gain (loss). For the year ended December 31, 2008 this amount was a gain of $3.8 million.

As a result of a declining Canadian dollar in 2008 the Company recorded a total foreign exchange gain of $6.8 million in 2008 compared to a loss of $1.3 million for the same period in 2007. Comprehensive income for the year ended December 31, 2008 included an unrealized gain of $9.6 million recorded on the translation of assets and liabilities of the Company's self sustaining operations.

The majority of the Company's expenses are paid in Thai Baht, notably Thai taxes and SRB. As such, the majority of the Company's funds are maintained in Baht in an effort to minimize foreign currency exchange gains or losses.

INCOME TAXES AND SPECIAL REMUNERATORY BENEFIT

	Three Months Ended December 31		Year Ended December 31	
	2008	2007	**2008**	2007
($000s)				
Special remuneratory benefit (SRB)	**6,358**	-	**35,489**	-
Current tax	**4,445**	4,646	**30,109**	4,646
Total current tax	**10,803**	4,646	**65,598**	4,646
Future tax expense (reduction)	**7,402**	(1,414)	**14,383**	(1,473)
Total tax expense	**18,205**	3,232	**79,981**	3,173

The Company is required to pay both income tax and SRB on its Thailand operations in 2008 and beyond. Income tax is 50% of taxable income which is basically comprised of funds flow from operations less capital expenditures and other permitted deductions. SRB is a tax at sliding scale rates of 0-75%, applied on a concession-by-concession basis to petroleum profits as defined in Thai tax legislation which includes a deduction for capital spent. The rate is principally driven by production and pricing but is subject to other adjustments such as changes in Thailand's consumer price index, wholesale price index and cumulative meters drilled on the concession.

The 2008 SRB rate for concession L44 (which contributed 90% of total Company production for the year) was 42% of petroleum profits for a net effective rate of 27%. Concession SWIA (which contributed the remaining 10% of production for the year) paid no SRB in 2007 or 2008. SRB is fully deductible in the calculation of current income taxes.

As explained above, because both the SRB and income tax calculations allow deductions for costs, including capital spent, the effective tax rates are considerably lower than calculated rates. As a percentage of revenues, or on a per barrel basis, the Company paid 7% of its revenue to government royalties, 7% for other expenses, 24% for SRB and 20% to income taxes. Due to the Company's very low cost structure, Pan Orient had funds flow from operations equal to 42% of revenue.

During the year, the Company paid to the Thai government $14.8 million relating to income tax for the first half of 2008 as well as $4.6 million of income tax owing for the year ended December 31, 2007. Taxes payable of $55.3 million at December 31, 2008 represent the second half of income tax and full year SRB to be paid by May 31, 2009.

GENERAL AND ADMINISTRATIVE (G & A) EXPENSES

	Three Months Ended December 31		Year Ended December 31	
	2008	2007	**2008**	2007
G & A - $000s	**1,450**	1,086	**5,492**	3,164
G & A - $/bbl	**2.26**	5.09	**3.03**	8.90

G&A expenses totaled $1.5 million ($2.26/bbl) for the quarter ended December 31, 2008 and $5.5 million ($3.03/bbl) year-to-date. The Company's growth over the year necessitated additional staff and other incremental administrative costs. G&A in the second half of the year includes $0.5 million for the Indonesian companies acquired in the second quarter as well as $0.2 million related to a litigation matter settled by Andora in November 2008.

FOREIGN NEW VENTURE EXPENDITURES

The Company was unsuccessful in its most recent bid for various oil and gas concessions in India. As a result, capitalized costs of $0.7 million relating to potential India interests were expensed and reported as foreign new venture expenditures.

STOCK-BASED COMPENSATION

Stock based compensation expense represents the portion of the aggregate fair value of stock options applicable to the reporting period. The actual expense is primarily determined by the number of options outstanding as well as the calculated fair value of those instruments and the vesting period. As required under Canadian GAAP, the Company uses the fair value method to account for its stock based compensation.

Stock-based compensation for the fourth quarter of 2008 was a reduction of $0.4 million compared to an expense of $1.5 million for the same period in 2007. Year-to-date, the expense totaled $0.6 million in 2008 compared to $2.6 million in 2007. Of the 4,441,500 options outstanding at the end of the year, 120,500 were revalued at December 31, 2008 in accordance with Generally Accepted Accounting Principles applicable to options granted to consultants. Due to the decline in the Company's share price over the year, the calculated fair value of these options was considerably lower than at December 31, 2007.

CAPITAL INVESTED

	Three Months Ended December 31		Year Ended December 31	
	2008	2007	**2008**	2007
($000s)				
Thailand	**9,568**	6,956	**28,832**	22,496
Thailand inventory	**892**	(638)	**2,487**	(1,332)
Indonesia	**5,229**	-	**7,345**	-
Canada	**909**	206	**1,827**	1,062
Total	**16,598**	6,524	**40,491**	22,226
Indonesia acquisition (cash)	**(1,131)**	-	**15,157**	-
Total	**15,467**	6,524	**55,649**	22,226
Indonesia acquisition (non cash)	**-**	-	**4,124**	-
Total	**15,467**	6,524	**59,773**	22,226

The 2008 Thailand capital program was focused on development of the Company's Na Sanun and Na Sanun East properties. During the fourth quarter 7(4.2 net) wells were drilled and during the year ended 2008, 22 (13.2 net) wells were drilled with respective success rates of 71% and 68%. In Indonesia where the Company acquired rights to 3 PSCs in 2008, the Company's activities consisted primarily of testing and abandonment of Citarum's Pasundun-1 well and commencement of the seismic projects for Citarum and Batu Gajah. The Company's subsidiary Andora drilled one water disposal well during 2008. Inventory expenditures relate to drilling equipment held for future development of the Company's Thailand properties. At December 31, 2008 the Company had $5.4 million of equipment available for future capital activities.

The 2009 capital plans include continued drilling on the Company's 60% owned SW1A and L44 concessions, initial development of the Company's 100% owned L53 concession with drilling expected to commence in July, and completion of Citarum and Batu Gajah seismic programs followed by commencement of drilling programs on both properties in 2010.

LIQUIDITY

Liquidity and Capital Resources

At December 31, 2008 Pan Orient's consolidated working capital was $42.1 million, including $98.9 million of cash and cash equivalents.

The Company plans to preserve financial flexibility by funding its ongoing capital program and meeting its commitments with existing cash surplus and expected cash flow from the Thailand operations. Expected future cash flows from the Thailand properties currently exceed operating and future capital expenditures however management is continually evaluating its prospects and should the current economic situation continue for an extended period, the Company may revise operations and capital activities as necessary to meet outstanding commitments.

In addition to working capital of $42.1 million, the Company had $4.3 million of non current cash deposits and $5.4 million of equipment inventory. The non current cash deposits relate to: 1) guarantees to the Thailand and Indonesia governments for the company's work commitments; and 2) customs importation permits in Thailand.

Current Economic Conditions

The recent decline in commodity prices reduce not only current cash flows of oil and gas companies but also expected future cash flows, thus impacting reserve valuations and the ability to carry out planned activities necessary for future growth. The industry has also become challenged by limited access to capital, both equity and credit. With Pan Orient's current working capital position and expected future cash flows from its Thailand operations management does not expect any current capital programs to be curtailed.

As at December 31, 2008 the fair value of Pan Orient's externally-evaluated reserves exceeded the book value. Forward prices in 2009 are estimated to be substantively less than 2008 crude oil prices and therefore, depending on the rate of production growth, the Company's cash flows for 2008 may not be indicative of future results. However, the Company's strong financial position provides it the ability to withstand commodity price volatility.

SHARE CAPITAL

On August 6, 2008 the Company announced that the TSX Venture Exchange approved a share repurchase program through a normal course issuer bid, the terms of which permit Pan Orient to purchase up to 2,288,488 (5%) of its issued and outstanding common shares prior to the expiry on August 10, 2009. A copy of the Notice of Intention filed with the TSX Venture Exchange can be obtained by any shareholder of the Company, free of charge, by contacting Pan Orient and can also be viewed at www.sedar.com.

During 2008 a total of 201,400 common voting shares were acquired at prices ranging from $3.80 to $8.00. In accordance with GAAP, share capital was reduced by $0.5 million and the remaining $0.6 million expended to purchase the shares was recorded as an adjustment to retained earnings.

The fully-diluted number of common shares outstanding at the following dates was:

Outstanding at period-end	April 17 2009	December 31 2008
Common shares	45,568,366	45,568,366
Common shares issuable on conversion of stock options	4,441,500	4,441,500
Total	50,009,866	50,009,866

COMMITMENTS AND CONTINGENCIES

As at December 31, 2008 the Company's outstanding capital commitments were as follows:

Country and Concession Name	Work Program Commitment	Obligation Period Ending	Net Financial Commitment (USD $000s)	(CAD $000s)[1]
Thailand				
L 53/48	Geological studies, drill 2 wells	January 2013	780	954
L 44/43	Study and training fund	July 2009	24	29
Indonesia				
Batu Gajah	500 kilometres of 2D seismic, 400 km^2 of 3D seismic and drill 3 exploration wells	January 2010	32,952	40,294
Citarum	1,250 kilometres of 2D seismic, drill 1 exploration well	October 2009	20,456	25,014
South CPP	200 kilometres 2D seismic reprocessing, 1 exploration well	November 2011	5,050	6,175
Total			59,262	72,466

(1) Translated at December 31, 2008 exchange rate of US $1 = CAD $1.223.

Indonesia financial commitments only include the current exploration phase that the Company is conducting. If Pan Orient exercises its options to continue beyond the obligation periods noted above, additional commitments will be determined on a year by year basis through submission of a work program and approval from the Indonesian government.

A 750 km 2D Seismic program is currently underway on Citarum and all seismic operations are anticipated to be completed by the end of 2009 with drilling anticipated in the second quarter of 2010.

Batu Gajah 2D seismic operations are planned to commence by the end of the second quarter of 2009. It is anticipated this program will be completed late in the third quarter of 2009 with the drilling of up to 3 wells to commence in the first quarter of 2010.

The intended timing of these capital activities does not always fall within the "obligation period ending" in the table above. Each year the Company submits a work program for each PSC to the Government of Indonesia (GOI) and along with it, a request to roll forward any incomplete commitments from the previous year. The above obligation periods for the Citarum and Batu Gajah operations represent the most recently-approved work programs for 2009 pursuant to this practice. Although in the past, such requests on behalf of Pan Orient have been approved by the GOI, and management has no reason to believe that they will not be in the future, there is no guarantee that the GOI will approve future requests.

The Company is committed to future minimum payments for office space in Thailand, Indonesia and Canada. Payments required under these commitments for each of the next five years are as follows:

($000s)

Year	Thailand	Indonesia	Canada	Total
2009	59	51	198	308
2010	-	58	201	259
2011	-	5	201	206
2012	-	-	205	205
2013	-	-	171	171
Thereafter	-	-	-	-
Total	59	114	976	1,149

As a result of an acquisition completed by Andora, a lawsuit was assumed, the likely outcome and potential costs of which are both indeterminable. Management believes the lawsuit has a low probability of success.

NON-CONTROLLING INTEREST

In November 2008, the Company's private subsidiary, Andora Energy Corporation, came to an arrangement with certain dissenting shareholders of Signet Energy Inc., which Andora had combined with in September 2007. These shareholders had exercised their right to dissent to the combination and as such the December 31, 2007, consolidated financial statements contain $3.7 million recorded in accounts payable to these shareholders. Pursuant to the executed arrangement Andora issued 2,241,558 shares to the dissenting shareholders as consideration in lieu of any cash entitlement. Following the completion of the aforementioned, Pan Orient's interest in Andora was reduced from 55.4% to 53.2%.

QUARTERLY SUMMARY

Selected Quarterly Information

	2008				2007			
($000s unless indicated)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Oil - Thailand	**36,329**	43,241	35,486	32,498	15,435	4,214	2,812	1,573
Royalties - Thailand	**(2,926)**	(2,808)	(2,349)	(2,254)	(931)	(242)	(265)	(119)
Interest - Canada	**424**	209	93	265	234	118	98	125
	33,827	40,642	33,230	30,509	14,738	4,090	2,645	1,579
Expenses								
Stock based compensation	**(381)**	214	446	296	1,487	235	237	642
General and administrative	**1,450**	1,777	1,378	885	1,086	764	764	550
Foreign new venture expenditures	**111**	619	-	-	-	-	-	40
DD & A	**7,327**	5,000	2,955	3,086	1,185	1,566	1,164	790
Operating & transportation	**2,671**	1,939	2,066	1,686	1,065	411	866	546
Non-controlling interest	**16**	(104)	(149)	12	457	(23)	4	(128)
Foreign exchange (gain) loss	**(6,385)**	(931)	696	(205)	(473)	1,079	807	(88)
Current income tax	**4,445**	11,041	8,262	6,360	4,646	-	-	-
SRB	**6,358**	8,196	9,601	11,335	-	-	-	-
Future income taxes	**7,402**	3,833	(483)	3,631	(1,414)	(28)	40	(70)
	23,014	31,584	24,772	27,086	8,039	4,004	3,882	2,282
Net income (loss)	**10,813**	9,058	8,458	3,423	6,699	86	(1,239)	(703)
Income (loss) per share - basic ($)	**0.24**	0.20	0.19	0.08	0.15	0.00	(0.03)	(0.02)
Income (loss) per share - diluted ($)	**0.23**	0.19	0.17	0.07	0.14	0.00	(0.03)	(0.02)
Average quarterly production, net to Pan Orient (bbl/d)	**6,982**	4,291	3,894	4,604	2,320	722	501	344
Capital expenditures (1)	**16,598**	13,627	6,686	3,581	6,524	9,035	5,277	1,390
Funds flow from operations (2)	**24,973**	17,366	10,947	10,612	7,942	2,455	1,014	442
Shares outstanding (000s)	**45,568**	45,650	45,770	45,247	45,218	41,635	40,135	40,057

(1) Not including acquisition of Indonesian companies
(2) Refer to "Non-GAAP Measures" for calculation

Q1 2007 – Production testing in Wichian Buri continued and an eighth well added to the drilling program discovered four potential fractured volcanic reservoir zones at Na Sanun. The Company acquired its 100% operated interest in L53. Andora purchased a gross overriding royalty of 3% on 36.5 sections of Sawn Lake oil sand leases.

Q2 2007 – The Company commenced drilling operations on the Na Sanun East field on L44/43 and, in compliance with Thailand work commitments, drilled an exploration well on L33.

Q3 2007 – Two wells from the Na Sanun East drilling program came on production at a combined stabilized rate of approximately 1,700 bbl/d. Pan Orient raised $6.4 million through the issuance of 1.5 million common shares at a price of $4.25 per share. The net proceeds from the offering were used to accelerate the 3-D seismic acquisition for L53. Andora purchased Signet Energy, diluting Pan Orient's ownership interest in Andora to 53.5%.

Q4 2007 – Positive results from the Na Sanun drilling program increased production capacity to 6,000 bbl/d (3,600 bbl/d net). Due to transportation (trucking) constraints the Company was not able to produce to capacity and average daily production for the quarter was 2,320 bbl/d (net), an increase of 221% over the previous quarter. Pan Orient exercised 2.25 million Andora warrants at a price of $1.60 per share to increase the Company's ownership interest in Andora to 55.4%. The Company raised gross proceeds of $32.0 million through the issuance of 3.5 million common shares at a price of $9.15 per share.

Q1 2008 – Thailand transportation constraints were resolved and three wells, ranging from 1,200 bbl/d to 3,900 bbl/d (gross) further improved quarterly production to 4,604 bbl/d (net), an increase of 98% over the previous quarter.

Q2 2008 – The Company acquired an operated 90% interest in the Batu Gajah PSC, a 69% operated interest in the Citarum PSC, onshore Indonesia and a 90% operated interest in a joint study agreement which subsequently became the South CPP PSC. In accordance with these acquisitions Pan Orient issued 378,324 common shares to the vendor of both these interests. Also during the quarter Pan Orient received environmental approvals from the Thai government for 32 drilling locations.

Q3 2008 – In Thailand the Company focused on production growth with the spud of 8 wells, a multi-well workover program and 5 new wells brought on-stream. Production gains from the new wells in the quarter were largely offset by natural declines and downtime related to producing wells being shut-in during the drilling of adjacent development wells from the same surface pad. Production averaged 4,291 bbl/d during the quarter, up 10% from the prior quarter. October 2008 production averaged over 6,600 bbl/d net to Pan Orient. This is the first period Indonesia's operations have been included in the Company's operating results. During the quarter this segment incurred $2.1 million of capital costs and $0.2 million of administrative expenses. In August of 2008 the Company announced a share repurchase program through which 119,900 common shares were acquired during the quarter and returned to treasury.

Q4 2008 – During the fourth quarter 7 (4.2 net) wells were drilled in Thailand with a success rate of 71%. Production additions from capital activities in the last half of the year resulted in volume of 6,982 bbl/d for the fourth quarter; an increase of 63% over the third quarter. Although oil prices fell considerably during the period reducing the Company's operating netbacks, lower cash taxes positively impacted funds flow from operations and fourth quarter funds flow was $25.0 million compared to $17.4 million for the third quarter; a 44% increase. Foreign exchange gains of $6.4 million were a prevalent factor in net income of $10.8 million. Indonesia activities consisted of testing of the Pasundan well on the Citarum block and commencement of the seismic programs for both Batu Gajah and Citarum. With respect to the Company's normal course issuer bid another 81,500 common shares were acquired and returned to treasury, for a total of 201,400. In November 2008 Andora issued 2.2 million shares to former Signet dissenting shareholders. As a result, Pan Orient's interest in Andora was reduced from 55.4% to 53.2%.

COMPARISON OF SELECTED ANNUAL INFORMATION

($000s except where otherwise indicated)	Year Ended December 31 2008	2007	Percent Change
Petroleum and natural gas revenue	**147,554**	24,034	514
Funds flow from operations	**63,897**	11,853	439
Per share basic ($)	**1.40**	0.29	383
Per share diluted ($)	**1.31**	0.28	368
Net income	**31,751**	4,843	556
Per share basic ($)	**0.70**	0.12	483
Per share diluted ($)	**0.65**	0.11	491
Total assets	**259,208**	142,470	82
Total long-term liabilities	**43,436**	25,823	68

CHANGE IN ACCOUNTING POLICIES

Prior to October 1, 2007, the Company's foreign operations were considered to be integrated and were translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities were translated at the year-end current exchange rate and non-monetary assets and liabilities were translated using historical rates of exchange. Gains or losses resulting from these translation adjustments were included in net income. Effective October 1, 2007, the Company's foreign operations are considered to be self sustaining and are translated to Canadian dollars using average exchange rates for the revenue and expenses. Assets and liabilities are translated at the year end exchange rate. Gains and losses resulting from these translations are included in other comprehensive income.

ACCOUNTING STANDARD CHANGES

Capital Disclosures

Effective January 1, 2008 the Company adopted Section 1535, *Capital Disclosures* which requires companies to disclose their objectives, policies and processes for managing capital as well as compliance with any externally imposed capital requirements.

Financial Instruments Disclosure and Presentation

Effective January 1, 2008 the Company adopted Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Disclosure and Presentation*. These disclosure standards were adopted prospectively and require entities to provide information that enable users to evaluate: 1) the significance of financial instruments for the entity's financial position and performance; and 2) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. As well, the section establishes standards for presentation of financial instruments and non-financial derivatives.

International Financial Reporting Standards

As required by the CICA, public companies will have to convert from Canadian GAAP to International Financial Reporting Standards (IFRS) beginning on or after January 1, 2011. This transition is a significant undertaking that may materially affect the Company's reported financial position and results of operations although currently the Company cannot reasonably estimate the effect on the financial statements.

To address concerns regarding the adoption of IFRS 1 *First-time Adoption of International Financial Reporting*

Standards, the International Accounting Standards Board (IASB) has stated that it plans to issue an exposure draft relating to certain amendments and exemptions to IFRS 1 in order to make it more useful to Canadian entities. An exemption relating to full cost oil and gas accounting is expected to reduce the administrative burden in the transition from the current Canadian Accounting Guideline 16. The amendment may potentially permit a reporting issuer to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, provided that a ceiling test, under IFRS standards, is conducted at the transition date. It is anticipated that this exposure draft will not result in an amended IFRS 1 until late 2009.

The Company is currently developing a timetable for assessing the impact of IFRS on data systems, internal controls over financial reporting and business activities, such as financing and compensation arrangements.

RISK FACTORS

Exploration, Development And Production

The long-term success of Pan Orient will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. These risks are mitigated by Pan Orient through the use of skilled staff, focusing exploration efforts in areas in which the Corporation has existing knowledge and expertise or access to such expertise, using up-to-date technology to enhance methods, and controlling costs to maximize returns. Despite these efforts, oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that Pan Orient will be able to locate satisfactory properties for acquisition or participation or that the Corporation's expenditures on future exploration will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to accurately project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion, infrastructure and operating costs. In addition, drilling hazards and/or environmental damage could greatly increase the costs of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-in of wells resulting from extreme weather conditions or natural disasters, insufficient transportation capacity or other geological and mechanical conditions. As well, approved activities may be subject to limited access windows or deadlines which may cause delays or additional costs. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The nature of oil and gas operations exposes Pan Orient to risks normally incident to the operation and development of oil and natural gas properties, including encountering unexpected formations or pressures, blow-outs, craterings and fires, all of which could result in personal injuries, loss of life and damage to the property of the Corporation and others. The Corporation has both safety and environmental policies in place to protect its operators and employees, as well as to meet the regulatory requirements in those areas where it operates. In addition, the Corporation has liability insurance policies in place, in such amounts as it considers adequate. The Corporation will not be fully insured against all of these risks, nor are all such risks insurable.

The Company's foreign operations also expose it to risks that are unique to the different countries it has current or future operations in. Some of the areas that Pan Orient has operations in may be considered politically and economically unstable. Exploration or development activities in such countries may require protracted negotiations with host governments, national oil companies and third parties and are frequently subject to economic and political considerations such as taxation, nationalization, expropriation, inflation, currency fluctuations, increased regulation and approval requirements, corruption and the risk of actions by terrorist or insurgent groups, any of which could adversely affect the economics of exploration or development projects.

Oil and Natural Gas Prices

The price of oil and natural gas will fluctuate based on factors beyond the Corporation's control. These factors include demand for oil and natural gas, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulations, including regulations relating to environmental protection, royalties, allowable production, pricing, importing and exporting of oil and natural gas. Fluctuations in price will have a positive or negative effect on the revenue to be received by the Corporation.

Reserves

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids, reserves and cash flows to be derived therefrom, including many factors beyond the Corporation's control. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Corporation's actual production, revenues and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

The Corporation's actual future net cash flows as estimated by independent reserve engineers will be affected by many factors which include, but are not limited to: actual production levels; supply and demand for oil and natural gas; curtailments or increases in consumption by oil and natural gas purchasers; changes in governmental regulation; taxation changes; the value of the Canadian dollar relative to the Corporation's functional currencies; and the impact of inflation on costs.

Actual production and cash flows derived therefrom will vary from the estimates contained in the applicable engineering reports. The reserve reports are based in part on the assumed success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the engineering reports will be reduced to the extent that such activities do not achieve the level of success assumed in the calculations.

Pursuit of New Technology

Capital projects that rely largely or partly on new technologies present additional exploration and development risks and the success of projects incorporating new technologies cannot be assured.

Current SAGD technologies for in-situ recovery of heavy oil are energy intensive, requiring significant consumption of natural gas and other fuels in producing steam that is used in the recovery process. The amount of steam required in the production process can also vary and affect costs. The performance of the reservoir can also affect the timing and levels of production using this technology. Additional risk may include but are not limited to: the ability to obtain necessary environmental and other regulatory approvals; risks relating to schedule, resources and costs, including the availability and cost of materials, equipment and qualified personnel; the impact of general economic, business and market conditions; the impact of weather conditions; the Company's ability to finance growth if commodity price decline and stay at low levels for an extended period; and the effect of changing government regulations and public expectations in relation to the impact of oil sand development on the environment. Furthermore, costs estimates for major projects involve uncertainties and evolve in stages. Some cost estimates are provided at the conceptual stage of projects and prior to commencement or completion of the final scope design and detailed engineering needed to reduce the margin of error. Accordingly, actual costs can vary significantly from estimates. A significant increase in recovery costs could have a negative effect on Pan Orient's results of operations.

Permits and Licenses

The operations of the Corporation require licenses and permits from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Foreign Activities

The Corporation's business operates in a number of foreign countries where there are added risks and uncertainties due to the different economic, cultural and political environments. Some of these risks include nationalization and expropriation, social unrest and political instability, uncertainties in perfecting mineral titles, trade barriers and exchange controls and material changes in taxation regulations.

Substantial Capital Requirements and Liquidity

The Corporation anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If Pan Orient's revenues or reserves decline, the Corporation may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet the Company's requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Additional Funding Requirements

The Corporation's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Corporation may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Corporation's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available or available on favourable terms.

Reliance on Operators and Key Employees

To the extent the Corporation is not the operator of its oil and natural gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of the Corporation will be largely dependent upon the performance of its management and key employees. The Corporation has no key-man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Corporation.

Management of Growth

Any expansion of the Corporation's business may place a significant strain on its financial, operational and managerial resources and there can be no assurance that the Corporation will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth successfully. Any inability of the Corporation to manage growth successfully could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Government Regulations

The Corporation may be subject to various laws, regulations, regulatory actions and court decisions that can have negative effects on the Corporation. Changes in the regulatory environment imposed upon Pan Orient could adversely affect the ability of the Corporation to attain its corporate objectives.

Litigation

From time to time, Pan Orient may be the subject of litigation arising out of the Company's operations. Specific disclosure and the assessed risk associated with current legal proceedings are disclosed under the heading "Legal Proceedings".

Title to Properties

Although title reviews will be performed according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of Pan Orient which could result in a reduction of the Corporation's revenue.

In Canada the private land owners own oil and gas rights and lease those rights to corporations who are responsible for the development of such rights within the time frames described in the leases. This practice differs distinctly in some foreign countries in which Pan Orient does business. In certain countries, the state often grants interests in large tracts of lands or offshore fields and maintains control over the development of the oil and gas rights, in some cases through equity participation in the exploration and development of the rights. This usually includes the imposition of obligations on Pan Orient to complete minimum work within specified time frames. Transfers of interests typically require a state approval, which may delay or otherwise impede transfers. In addition, if a dispute arises in Pan Orient's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign arbitration tribunals or foreign courts.

Conflicts of Interest

The directors and executive officers of the Corporation may be or may become engaged in different areas of the oil and gas exploration and production industries, both on their own behalf and on behalf of other companies, and situations may arise where the directors and officers may be in direct competition with the Corporation. Conflicts of interest, if any, which arise will be subject to and governed by the procedures prescribed by the ABCA. The provisions of the ABCA require a director or officer of a corporation who is a party to, or is a director or an officer of or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation to disclose his interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

Competition

The industry is highly competitive in the acquisition of exploration prospects and the development of new sources of production and the sale of oil and natural gas. The Corporation's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

Environmental Concerns

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial, federal and international legislation. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders in respect of the Corporation or the properties. Such legislation may be changed to impose higher standards and potentially more costly obligations on the Corporation. There can be no assurance that the Corporation will be able to satisfy its actual future environmental and reclamation obligations.

Insurance

The Corporation's involvement in the exploration for and development of oil and natural gas properties may result in the Corporation or its subsidiaries, as the case may be, becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Prior to drilling, the Corporation or its subsidiaries, as the case may be, will obtain insurance in accordance with industry standards to address certain of these risks. However, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Corporation or its subsidiaries, as the case may be, may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The occurrence of a significant event that the Corporation may not be fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position.

Regulatory Matters

The Corporation's operations will be subject to a variety of federal and provincial laws and regulations, including income tax laws and laws and regulations relating to the protection of the environment. The Corporation's operations may require licenses from various governmental authorities and there can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out planned exploration and development projects.

Greenhouse Gas Emissions

Canada is currently a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder. Canada, as an Annex B party to the Kyoto Protocol, is required to establish legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gasses" (GHG). The Government of Canada has announced its intention to regulate GHG and other air pollutants and is currently developing a framework that outlines its clean air and climate change action plan, including targets to reduce GHG emissions and a commitment to regulate industry on an emissions intensity basis for several years. Currently there are few technical details regarding the implementation of the Government's plan to regulate industrial GHG emissions, but the Government has made a commitment to work with industry to develop the specifics. It is premature to predict what impact a federal GHG emissions regulatory regime could have on Pan Orient but it is likely that any mandated reduction in GHG emissions will increase forecasted costs with respect to the Company's interests in Sawn Lake.

Third Party Credit Risk

Pan Orient is or may be exposed to third party credit risk through the sale of its production, contractual arrangements with its current or future joint venture partners and other parties. In the event that such entities fail to meet their contractual obligations to Pan Orient, such failures could have a material adverse effect on the Company and its cash flows.

Currently 100% of the Company's production is sold to a refinery owned by the Thai National Oil Company. Risk of non collection is minimal as Pan Orient is paid for its production on a monthly basis, typically within a week of the end of the month.

Taxes

Calculations for required filings in Canada and Thailand are based on interpretation of complex laws and regulations and are subject to reassessment by the applicable taxation authorities. The Corporation is currently subject to Thai income tax as well as a special remuneratory benefit (SRB) tax on profits from its production in Thailand. A successful reassessment of the Corporation's tax filings or any change in regulations may have a significant impact on current and future taxes payable.

Furthermore, Thai income tax and SRB are subject to several variables, primarily production levels, cash flows, capital expenditures and changes in government legislation but also changes in Thailand's consumer price index, wholesale price index, cumulative meters drilled on the concession and for certain concessions, changes in the exchange rate between the baht and the USD. These factors, many of which are beyond the Company's control, may have a material effect on the company's tax expense.

ADDITIONAL INFORMATION

Additional information relating to the Company can also be found on SEDAR at www.sedar.com.

PAN ORIENT ENERGY CORP.

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