



PAN ORIENT ENERGY CORP.

2008 MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is prepared effective November 20, 2008, and should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the nine months ended September 30, 2008 and the audited consolidated financial statements and notes thereto and MD&A for the year ended 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 November 20, 2008 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:

| (\$000s) | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|-------|-------------------|-------|
| | September 30 | | September 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| Cash flow from operating activities | 26,514 | 613 | 80,954 | 287 |
| Changes in non-cash working capital | (9,148) | 1,842 | (42,030) | 3,624 |
| Funds flow from operations | 17,366 | 2,455 | 38,924 | 3,911 |

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 network 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: Canadian oil sand leases, partially developed concessions located on-shore Thailand and undeveloped interests on-shore Indonesia. 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, 2007, as evaluated by independent reserve engineers, were 17.0 MMbbl net to Pan Orient.

The Company anticipates eventual full development of its Thailand properties and is currently focused on a minimum 32-well drilling program in the Na Sanun East and Wichian Buri fields located in SW1A and L44, in addition to a number of exploration drilling locations. This program is expected to extend in to 2009 although the Company is continually evaluating it prospects in light of market conditions and may revise its plans accordingly. The remaining two concessions, L33 and L53 are largely undeveloped at this time. It is anticipated L53 drilling will begin in the second quarter of 2009, subject to receipt of Thai government approvals.

Canada

Through its 55.4% ownership of the privately-held Andora Energy Corp. (Andora), Pan Orient has interests in heavy oil sand leases in Sawn Lake, within the central Alberta Peace River Oil Sands area.

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. Pending ERCB approval and funding, Andora is currently considering the project timing with the earliest anticipated steam injection in late 2009 with production to follow in 2010.

Probable plus possible reserves at December 31, 2007, as evaluated by independent reserve engineers, were 274.4 MMbbl net to Andora (152.0 MMbbl net to Pan Orient).

Indonesia

In the second quarter of 2008 the Company acquired companies with interests in two production sharing contracts (PSC) in Indonesia. The Company owns a 90% working interest in the Batu Gajah PSC located onshore south Sumatra and a 69% operated working interest in the Citarum PSC located onshore West Java. In addition to the working interests in Citarum and Batu Gajah PSCs, Pan Orient also acquired certain rights to other interests in exploration lands within the Republic of Indonesia that have been exercised under certain conditions.

The Citarum PSC block has one previously-drilled well, Pasundan-1, which the Company will commence testing in late-November. Drilling plans will be ultimately determined by completion of a 750km 2D seismic program, but currently include a 3 well program on Citarum and up to 3 wells on Batu Gajah, both beginning in the latter half of 2009.

QUARTERLY SUMMARY

Selected Quarterly Information

| | 2008 | | | 2007 | | | | 2006 |
|--|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| <i>(\$000s unless indicated)</i> | | | | | | | | |
| Revenues | | | | | | | | |
| Oil - Thailand | 43,241 | 35,486 | 32,498 | 15,435 | 4,214 | 2,812 | 1,573 | 431 |
| Royalties - Thailand | (2,808) | (2,349) | (2,254) | (931) | (242) | (265) | (119) | (52) |
| Interest - Canada | 209 | 93 | 265 | 234 | 118 | 98 | 125 | 206 |
| | 40,642 | 33,230 | 30,509 | 14,738 | 4,090 | 2,645 | 1,579 | 585 |
| Expenses | | | | | | | | |
| Stock based compensation | 214 | 446 | 296 | 1,487 | 235 | 237 | 642 | 518 |
| General and administrative | 1,777 | 1,378 | 885 | 1,086 | 764 | 764 | 550 | 711 |
| Foreign new venture expenditures | 619 | - | - | - | - | - | 40 | 126 |
| DD & A | 5,000 | 2,955 | 3,086 | 1,185 | 1,566 | 1,164 | 790 | 444 |
| Operating & transportation | 1,939 | 2,066 | 1,686 | 1,065 | 411 | 866 | 546 | 535 |
| Non-controlling interest | (104) | (149) | 12 | 457 | (23) | 4 | (128) | (29) |
| Foreign exchange (gain) loss | (931) | 696 | (205) | (473) | 1,079 | 807 | (88) | (201) |
| Current income tax | 11,041 | 8,262 | 6,360 | 4,646 | - | - | - | - |
| SRB | 8,196 | 9,601 | 11,335 | - | - | - | - | - |
| Future income taxes | 3,833 | (483) | 3,631 | (1,414) | (28) | 40 | (70) | (1,072) |
| | 31,584 | 24,772 | 27,086 | 8,039 | 4,004 | 3,882 | 2,282 | 1,032 |
| Net income (loss) | 9,058 | 8,458 | 3,423 | 6,699 | 86 | (1,239) | (703) | (447) |
| Income (loss) per share - basic (\$) | 0.20 | 0.19 | 0.08 | 0.15 | 0.00 | (0.03) | (0.02) | (0.01) |
| Income (loss) per share - diluted (\$) | 0.19 | 0.17 | 0.07 | 0.14 | 0.00 | (0.03) | (0.02) | (0.01) |
| Average quarterly production, net to Pan Orient (bbl/d) | 4,291 | 3,894 | 4,604 | 2,320 | 722 | 501 | 344 | 118 |
| Capital expenditures ⁽¹⁾ | 13,627 | 6,686 | 3,581 | 6,524 | 9,035 | 5,277 | 1,390 | 4,250 |
| Funds flow from operations ⁽²⁾ | 17,366 | 10,947 | 10,612 | 7,942 | 2,455 | 1,014 | 442 | (786) |
| Shares outstanding (000s) | 45,650 | 45,770 | 45,247 | 45,218 | 41,635 | 40,135 | 40,057 | 40,057 |

⁽¹⁾ Not including acquisition of Indonesian companies

⁽²⁾ Refer to "Non-GAAP Measures" for calculation

Q4 2006 - A 7- well drilling program was completed, testing of previously drilled wells commenced and the first of the new wells came on stream at a stabilized rate of approximately 100 bbl/d.

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, and a 69% operated interest in the Citarum PSC, onshore Indonesia. 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.

PRODUCTION AND NETBACKS

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|--------------------|---------|-------------------|---------|
| | September 30 | | September 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| Oil revenue (\$000s) | 43,241 | 4,214 | 111,225 | 8,598 |
| Average daily production (bbls/d) | 4,291 | 722 | 4,263 | 524 |
| Operating and corporate netback (\$) | | | | |
| Realized oil price | 109.54 | 63.44 | 95.22 | 60.14 |
| Royalties | (7.11) | (3.64) | (6.34) | (4.38) |
| Operating expenses | (2.30) | (3.70) | (2.31) | (10.25) |
| Transportation expenses | (2.61) | (2.49) | (2.56) | (2.50) |
| TOTAL OPERATING NETBACK | 97.52 | 53.61 | 84.01 | 43.28 |
| Interest income | 0.53 | 1.77 | 0.49 | 2.38 |
| General & administrative expenses | (4.50) | (11.50) | (3.46) | (14.54) |
| Foreign new venture expenditures | (1.57) | - | (0.53) | - |
| Realized foreign exchange | 0.75 | (6.93) | (0.27) | (3.22) |
| Special remuneratory benefit | (20.76) | - | (24.94) | - |
| Income tax | (27.97) | - | (21.97) | - |
| TOTAL CORPORATE NETBACK | 44.00 | 36.95 | 33.33 | 27.90 |

For the three and nine months ended September 30, 2008, revenue was over 10 and 12 times that recorded for the respective periods in 2007. The primary catalyst of this revenue growth was the dramatic increase in production volumes. Oil prices also had a significant impact on the quarter's financial results.

Pan Orient's production growth is attributable to its successful drilling program in L43, specifically Na Sanun East. Average daily production for the third quarter of 2008 was 494% higher compared to the third quarter of 2007. For the nine months ended September 30, 2008 average daily production was 714% higher than the respective period in 2007. Although five new wells were brought on production during the three months ended September 30, 2008, the incremental volumes were largely offset by natural declines and well downtime related to wells being shut in during the drilling of adjacent development wells, resulting in a 10% increase in production volumes compared to the second quarter of 2008. Subsequent to the end of the quarter, production volumes increased substantially with realized volumes of 6,600 bbl/d net for the month of October. Exit production for 2008 is targeted at 9,000 bbl/d net although actual results will be determined by drilling success, the time required to place new wells on production, individual well performance, and access to refining facilities. The Company's operations have been unaffected by recent political events in Thailand.

The Company's oil revenues are dependent upon oil prices which are dictated by global supply and demand. So far in 2008 the industry has experienced all-time record oil prices and tremendous volatility, contributors to which include demand caused by Asian industrialization, geopolitical tension and uncertainties and, more recently, worldwide recession concerns. During the year WTI averaged over \$110/bbl USD and peaked above \$145/bbl USD before a rapid freefall to the current price of approximately \$50/bbl USD. The Company's oil production is sold at daily spot prices and the Company's realized price includes a discount for the high paraffin nature of the oil. Pan Orient's realized oil price was \$109.54/bbl for the three months ended September 30, 2008 compared to \$63.44/bbl for the second quarter of 2007, an increase of 73%. The realized price of \$95.22/bbl year-to-date 2008 compared to 2007 was 58% higher. Prices received for future production will be determined by overall commodity market conditions.

ROYALTIES

| | Three Months Ended | | Nine Months Ended | |
|--------------------------|--------------------|------|-------------------|------|
| | September 30 | | September 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| Royalties - \$000s | 2,808 | 242 | 7,411 | 626 |
| Royalties - \$/bbl | 7.11 | 3.64 | 6.34 | 4.38 |
| Royalties - % of revenue | 6.5 | 5.7 | 6.7 | 7.3 |

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 5% of the Company's total production and does not have a significant impact on the Company's 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.

Total royalties were higher in 2008 compared to the previous year due to the increase in production volumes. On a unit basis, royalties have increased to \$7.11/bbl for the three months and \$6.34/bbl for the nine months ended September 2008, reflecting the higher rate charged by the Thai government for the Company's current production levels. Future royalty rates will be primarily determined by the Company's production levels.

PRODUCTION EXPENSES

| | Three Months Ended | | Nine Months Ended | |
|---------------------------|--------------------|------|-------------------|-------|
| | September 30 | | September 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| (\$000s) | | | | |
| Operating expenses | 907 | 246 | 2,696 | 1,466 |
| Transportation expenses | 1,032 | 165 | 2,994 | 357 |
| Total production expenses | 1,939 | 411 | 5,690 | 1,823 |
| (\$/bbl) | | | | |
| Operating expenses | 2.30 | 3.70 | 2.31 | 10.25 |
| Transportation expenses | 2.61 | 2.49 | 2.56 | 2.50 |
| Total production expenses | 4.91 | 6.19 | 4.87 | 12.75 |

The Company continues to benefit from the low cost nature of its operations. Operating costs (including transportation) for both the quarter and year to date were both less than \$5.00/bbl. Total production expenses for the three and nine month periods ended September 30, 2008 were significantly higher than the respective periods of 2007 due to the growth in the Company's operations. However, in relation to the comparable periods of 2007, the costs per barrel improved by 21% for the three months ended September 30, 2008 and 62% for the nine months ended September 30, 2008.

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. Per unit costs are expected to decline further with anticipated production gains.

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

DEPLETION, DEPRECIATION AND ACCRETION (DD&A)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------|-------------------|-------|
| | September 30 | | September 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| Depletion, depreciation and accretion – \$000s | 5,000 | 1,566 | 11,042 | 3,520 |
| Depletion, depreciation and accretion – \$/bbl | 12.67 | 23.58 | 9.45 | 24.62 |

DD&A expense for the three and nine months ended September 30, 2008 of \$5.0 million and \$11.0 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. The per unit decrease is the result of reserve growth from the Na Sanun and Na Sanun East oil fields, recognized in the 2007 year end reserve report.

Depletion expense in future periods will reflect finding, development and acquisition costs for proved reserves.

FOREIGN EXCHANGE

The Company holds Thai Baht and US dollar currency and working capital and as a result, records an amount each reporting period for the change in the values of these currencies relative to the Company's reporting currency, the Canadian dollar. 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 as other comprehensive income. As the Company realizes its investment in Thailand and profits are transferred to the Canadian entity, a proportionate amount of accumulated other comprehensive income is transferred to earnings.

The Company recorded a foreign exchange gain of \$0.4 million in 2008 compared to a loss of \$1.8 million for the same period in 2007. As a significant portion of the Company's cash is held in Thai baht, and to a lesser extent US dollars, the falling Canadian dollar triggered an exchange gain of \$0.9 million in the third quarter. Comprehensive income for the nine months ended September 30, 2008 includes an unrealized gain of \$1.8 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 therefore alleviating the potential of large foreign currency exchange gains or losses.

INCOME TAXES AND SPECIAL REMUNERATORY BENEFIT

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|--------------------|------|-------------------|------|
| | September 30 | | September 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| (\$000s) | | | | |
| Current tax | 11,041 | - | 25,663 | - |
| Special remuneratory benefit (SRB) | 8,196 | - | 29,132 | - |
| Total current tax | 19,237 | - | 54,795 | - |
| Future tax (reduction) expense | 3,833 | 28 | 6,982 | (59) |
| Total tax expense | 23,070 | 28 | 61,777 | (59) |

The Company is required to pay both income tax and SRB on its Thailand operations in 2008 and beyond. The income tax rate is 50% and allows deductions for expenses, capital expenditures and SRB. SRB is a tax on “windfall profits” at sliding scale rates of 0-75%, calculated on a concession-by-concession basis once all capital has been recovered. The basis of the calculation is petroleum profits, adjusted for capital spent, subjected to the calculated SRB rate. 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, cumulative meters drilled on the concession and for certain concessions, changes in the exchange rate between the Thai Baht and the USD.

As the SRB calculation is performed and paid annually for each concession at the calculated annual rate at the end of the year, quarterly estimates of what the expected rate may be are subject to management estimates. The estimated 2008 annual SRB rate for the nine months ended September 30, 2008 was 43% for concession L44 (which contributed 89% of production for the nine month period) and 0% for concession SW1A (which contributed 11% of production for the nine month period). The rate calculated for L44 for the six months ended June 30, 2008 was 49%; the decrease attributable to lower-than-anticipated production for the year and the decline in remainder of 2008 oil prices. SRB is fully deductible in the calculation of current income taxes and thus has a net effective rate of 50% of its calculated rate.

During the third quarter, the Company paid to the Thai government \$14.8 million relating to income tax for the first half of 2008. The Company’s SRB is payable after the end of the year.

Income tax and SRB in subsequent periods will be primarily determined by production levels, cash flows and capital expenditures. Any changes in government legislation may also significantly impact these expenses.

GENERAL AND ADMINISTRATIVE (G & A) EXPENSES

| | Three Months Ended | | Nine Months Ended | |
|----------------|--------------------|-------|-------------------|-------|
| | September 30 | | September 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| G & A - \$000s | 1,777 | 764 | 4,041 | 2,079 |
| G & A - \$/bbl | 4.50 | 11.62 | 3.46 | 14.56 |

Total G&A expenses have increased as a result of the Company’s growth over the past year. On a per barrel basis, costs have improved by 61% and 76% for the three and nine months ended September 30, 2008, compared to the three and nine months ended September 30, 2007. Management is of the opinion that personnel levels in Thailand are adequate for planned growth. Indonesia is anticipated to require additional staffing as exploration and development advances.

Third quarter 2008 G&A of \$1.8 million includes \$0.2 million related to a litigation matter settled by Andora and \$0.2 million of Indonesia G&A which did not exist in prior periods.

FOREIGN NEW VENTURE EXPENDITURES

Foreign new venture expenditures of \$0.6 million represents a write down of the accumulated costs in the Company’s India cost centre, as the Company’s NELP VII bid was unsuccessful.

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 was \$0.2 million for both the third quarters of 2008 and 2007. Year-to-date, the expense totaled \$1.0 million in 2008 compared to \$1.1 million in 2007. Amounts reported in earnings are less capitalized stock-based compensation for options granted to employees and consultants engaged in exploration activities.

LIQUIDITY

At September 30, 2008, Pan Orient's consolidated accounts included approximately \$37.7 million of working capital, including \$77.3 million of cash. The Company's Thailand activities now self-funding and generate excess cash at current operating levels and prices. During the first nine months of 2008, funds flow from operations of \$38.9 million exceeded the Company's \$20.9 million investment into petroleum and natural gas properties in Thailand. Included in the third quarter 2008 Thai capital expenditures of \$11.1 million is a \$1.4 million increase in inventories to now total \$3.7 million net to Pan Orient at September 30, 2008. Also included in third quarter capital expenditures is \$2.1 million in Indonesia largely relating to the initial stages of work being performed on the Company's large seismic acquisitions on both the Batu Gajah and Citarum PSC's. Existing working capital and cash flows are available for:

- continued drilling onshore Thailand on its 60 percent owned SWIA and L44 concessions utilizing 2 drilling rigs under long-term contract;
- drilling on the 100% owned L53 concession, upon which a 3D seismic acquisition program was completed in the fourth quarter of 2007;
- fourth quarter 2008 and 2009 seismic programs and 2009 drilling programs on Citarum and Batu Gajah in Indonesia; and
- fourth quarter 2008 testing of the Pasundan-1 well on the Citarum PSC.

In addition to the \$37.7 million of consolidated working capital, the Company has \$2.4 million of other cash deposits including \$0.8 million relating to the L53 the concession and \$1.6 million of customs and other deposits.

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.

During the three months ended September 30, 2008 a total of 119,900 common voting shares were acquired at prices ranging from \$5.35 to \$8.00. In accordance with GAAP, share capital was reduced by \$0.3 million and the remaining \$0.5 million to purchase the shares was recorded as an adjustment to retained earnings.

Subsequent to September 30, another 81,500 shares were acquired at prices ranging from \$3.80 to \$4.57. The repurchased shares have been cancelled and returned to treasury.

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

| <u>Outstanding at period-end</u> | November 20 2008 | September 30 2008 |
|---|-----------------------------|------------------------------|
| Common shares | 45,568,366 | 45,649,866 |
| Common shares issuable on conversion of stock options | 4,516,500 | 4,476,500 |
| Total | 50,084,866 | 50,126,366 |

COMMITMENTS AND CONTINGENCIES

The Company has entered into agreements to lease premises in both Canada and Thailand, requiring future minimum annual payments during the next five fiscal years are as follows:

| (\$000s) | |
|--------------|------------|
| 2008 | 60 |
| 2009 | 189 |
| 2010 | 143 |
| 2011 | 143 |
| 2012 | 146 |
| Total | 681 |

The concession agreement for L53 includes a minimum three year first exploration phase commitment of \$1.9 million USD. At September 30, 2008, \$0.8 million USD has yet to be expended.

Pursuant to the terms of the Batu Gajah PSC in Indonesia, the Company is required to complete 500 kilometers of 2D seismic, 400 square kilometers of 3D seismic and drill 3 wells with estimated expenditures of \$29.8 million net USD, to be completed by January 2010. At September 30, 2008, initial planning activities for the seismic program had commenced. Upon completion of the work program, Pan Orient has the option to continue on a year by year renewal basis for up to an additional 7 years, upon which time additional commitments will be required.

Commitments on the Citarum PSC in Indonesia, include drilling three exploration wells and completing 750 kilometers of 2D seismic. Estimated costs for the commitments, to be completed by October 2009, are \$18.4 million net (\$23.0 million gross) USD. If the Company exercises its option to continue beyond October 2009, additional commitments will be applicable on a year by year renewal basis. At September 30, 2008 initial planning activities for the seismic program were underway.

SUBSEQUENT EVENT

Subsequent to September 30, 2008, the Company's 55.4% owned 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 September 30, 2008, consolidated financial statements contain \$3.6 million recorded in accounts payable to these shareholders. The executed arrangement will see Andora issue 2,241,558 Andora shares to the dissenting shareholders as consideration, in lieu of any cash entitlement. Following the completion of the aforementioned, Pan Orient will own 53.3% of Andora.

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.

ADDITIONAL INFORMATION

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



PAN ORIENT ENERGY CORP.

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