



PAN ORIENT ENERGY CORP.

2007 MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is prepared effective April 30, 2008 and should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2007, and 2006. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

The MD&A contains forward-looking information regarding the Company. 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 levels; production levels; royalty and depletion rates; the recoverability of reserves; transportation availability and costs; operating and other costs; interest rates and currency exchanges rates; and changes in environmental and other legislation and regulations.

Pan Orient Energy Corp. ("Pan Orient" or the "Company") is an oil and natural gas company based in Calgary, Alberta, which holds properties in northern Alberta and onshore Thailand and actively pursues opportunities in Asia for exploration of oil and natural gas.

SELECTED QUARTERLY INFORMATION

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues								
Oil - Thailand	\$ 15,435,470	4,213,990	2,811,536	1,572,582	430,609	263,586	265,171	297,081
Royalties - Thailand	(930,896)	(241,511)	(264,804)	(119,486)	(52,150)	(36,808)	(37,247)	(53,075)
Interest - Canada	233,627	117,656	98,215	125,065	206,949	206,823	247,971	43,084
	<u>14,738,201</u>	<u>4,090,135</u>	<u>2,644,947</u>	<u>1,578,161</u>	<u>585,408</u>	<u>433,601</u>	<u>475,895</u>	<u>287,090</u>
Expenses								
Stock based compensation	1,487,409	235,183	237,199	641,534	518,412	254,331	677,024	323,354
General and administrative	1,085,586	763,766	764,776	550,188	710,536	390,792	432,441	209,491
Foreign expenditures	-	-	-	40,000	126,297	-	-	-
DD & A	1,185,117	1,565,965	1,164,110	789,733	444,311	135,205	120,738	143,609
Operating & transportation	1,064,841	411,053	866,345	546,050	535,360	64,642	115,033	109,171
Non-controlling interest	457,560	(22,800)	3,865	(127,565)	(29,139)	-	-	-
Foreign exchange loss (gain)	(472,731)	1,079,351	807,364	(88,357)	(201,477)	(20,394)	51,653	29,093
Current tax	4,645,510	-	-	-	-	-	-	-
Future income tax increase (reduction)	(1,414,209)	(28,158)	39,850	(70,450)	(1,072,000)	-	-	-
	<u>8,039,083</u>	<u>4,004,360</u>	<u>3,883,509</u>	<u>2,281,133</u>	<u>1,032,300</u>	<u>824,576</u>	<u>1,396,889</u>	<u>814,718</u>
Net income (loss)	\$ 6,699,118	85,775	(1,238,562)	(702,972)	(446,892)	(390,975)	(920,994)	(527,628)
Income (loss) per share	\$ 0.15	0.00	(0.03)	(0.02)	(0.01)	(0.01)	(0.03)	(0.02)
Average quarterly production,								
net to Pan Orient (bbl/d)	2,320	722	501	344	118	50	48	60

ANDORA ACQUISITION

During the third quarter of 2006 the Company acquired 67 percent of the issued and outstanding shares of Andora Energy Corporation ("Andora"). This was done via a series of transactions resulting in: (i) the disposition of the Company's Canadian oil and natural gas properties (Sawn Lake assets) in exchange for 10,000,000 shares of Andora; (ii) the Company subscribing for 4,981,481 Andora common shares for \$6,275,000 cash; and (iii) the Company acquiring an additional 13,414,634 Andora common shares from existing Andora common shareholders for consideration of \$2,145,621 in cash and the issuance of 4,257,222 Pan Orient shares. Andora is a private oil and gas company with oil sand leases in the Sawn Lake area of Northern Alberta. The Company's 100% owned subsidiary (Pan Orient Energy Ltd.) and Andora then

amalgamated, immediately prior to which time all of Pan Orient Energy Ltd.'s remaining assets were transferred to Pan Orient Energy Corp.

As a result of other parties owning the remaining 33% of Andora, Pan Orient's 2006 financial statements record a non-controlling interest representing the portion of assets and liabilities not owned by Pan Orient.

ANDORA ACQUISITION OF SIGNET ENERGY INC.

On September 19, 2007, the Company's subsidiary, Andora, completed a business combination with Signet Energy Inc. ("Signet"). Signet was a private oil and gas company holding heavy oil interests in Sawn Lake, Alberta. The combination was effected by way of a plan of arrangement under the Business Corporations Act (Alberta) whereby the security holders of Signet received, in aggregate, 10,741,128 common shares of Andora with a deemed value of \$17,185,804. Certain shareholders of Signet exercised their right to dissent to the combination, and as such Andora has recorded a liability of \$3,716,675. In addition to Signet's heavy oil interests, Andora received Signet's working capital, comprised mainly of cash, of \$3.1 million.

In connection with the transaction, Andora also issued 310,000 share purchase warrants, to an existing third party Signet warrant holder, with an exercise price of \$2.86 per Andora share, expiring November 17, 2008. The fair estimated value of these warrants was not significant on the combination date.

As a result of the Signet transaction, Pan Orient's ownership level of Andora fell from 67% to 53.5%. In December 2007 Pan Orient exercised warrants it had to purchase shares of Andora which, increased Pan Orient's ownership to approximately 55.4%. As a result of other parties owning the remaining 44.6% of Andora's common shares, Pan Orient's 2007 financial statements record a non-controlling interest representing the portion of assets and liabilities not owned by Pan Orient.

OIL AND GAS ASSETS

The Company's principle oil and gas assets currently consist of:

- a 60 percent working interest in 952,000 acres of exploration and production licenses onshore Thailand. This working interest is held in 2 concessions; L44/43 which currently has oil production and L33/43 which currently has no production. Pan Orient is the operator of both of these concessions. As per all Thai concession agreements, a 50% acreage relinquishment is required at the end of year four. In compliance, the Company relinquished approximately half of these two concessions in July 2007, and it now holds a 60% working interest in 952,000 gross acres. This had no impact on the prospectivity of the Company's Thai acreage as no future drilling would have been performed in the relinquished areas.
- a 100 percent working interest, with Pan Orient as operator, in the 1,000,000 acre L53/48 concession onshore Thailand. This Concession was awarded to the Company in January 2007 and currently has no production or recognized reserves.
- a 55.4 percent ownership of Andora Energy Corporation ("Andora"), a private oil and gas company with oil sand leases in Alberta containing probable + possible recoverable reserves of 274 million barrels of oil, as defined by an independent third party engineering firm. This property currently has no production.

HIGHLIGHTS

The Company recorded oil revenues of \$24,033,578 for the year ended December 31, 2007, nearly twenty times the \$1,256,447 in oil revenues in 2006. The fourth quarter 2007 oil revenues of \$15.4 million were approximately 3.7 times those recorded in the third quarter of 2007. Oil production, net to Pan Orient, averaged 2,320 bbl/d in the fourth quarter, and 974 bbl/d for all of 2007. Oil production averaged 69 bbl/d in 2006. Oil prices averaged \$67.45 for the year (2006 - \$49.98). The production in the fourth quarter of 2,320 bbl/d was enough for the Company to achieve net income of \$6.7 million in the quarter. Oil revenues are expected to continue to rise substantially as the Company continues its exploration and Na Sanun East development programs in 2008.

Royalty expenses on Thailand oil production were \$1,556,697 in 2007 (up from \$179,280 in 2006), or about 6.5% of sales. The included government royalty is 5% of gross production up to 2,000 bbl/d, and increases to 6.25% for gross production between 2,000 and 5,000 bbl/d, 10% for gross production between 5,000 and 10,000 bbl/d, and 20% for gross production between 10,000 and 20,000 bbl/d. Gross production of 10,000 bbl/d will yield a 7.9% royalty rate.

Interest income on the Company's cash balances was \$574,563 for 2007 (2006 - \$704,827).

Non-cash stock based compensation expenses totaled \$2,601,325 in 2007 (2006 - \$1,773,121). As required under Canadian GAAP, the Company uses the fair value method to account for its stock based compensation. Included in non-cash based stock compensation expense is \$300,000 related to stock options granted in Andora, entitling the holders to acquire common shares of Andora.

General and administrative expenses (G&A) during 2007 totaled \$3,164,316, up from \$1,743,260 in 2006. The 2007 G&A levels reflect additional Thai staff and administrative costs relating to the increased levels of drilling and production activities compared to 2006. The Company does not anticipate any significant G&A increases based on existing Thai concessions, as it feels it is adequately staffed for planned growth.

Thailand production and operating costs totaled \$2,024,265 in 2007 (2006 - \$779,121). Transportation costs (trucking of the oil) totaled \$864,024 in 2007 (2006 - \$45,085). Operating costs averaged \$5.68 per barrel in 2007, and oil transportation costs averaged \$2.42 per barrel during 2007. Operating costs per barrel continue to fall as production rises, as a significant portion of the Thailand operating costs are fixed including expatriate production managers salaries. The fourth quarter of 2007 operating and transportation costs combined totaled \$4.99 per barrel.

Depletion, depreciation and accretion (DD&A) totaled \$4,704,925 (\$13.20/bbl) in 2007 (2006 - \$843,863 or \$33.50/bbl). The Company's fourth quarter of 2007 depletion rate fell to \$5.41 per barrel due to the production success of the Na Sanun and Na Sanun East oil fields being recognized in the form of higher proven reserves in the 2007 year end reserve report.

The Company expensed \$40,000 in foreign new ventures expenditures in 2007 (2006 - \$126,297), relating to costs incurred pursuing acquisitions in India.

As a result of holding both Thai Baht and US dollar currency and working capital, the Company posted a foreign exchange loss of \$1,325,627 for the year compared to a gain of \$141,125 in 2006. The 2007 loss is largely unrealized and results from the Canadian dollar appreciating against the US dollar.

The Company recorded income of \$4,843,359 (\$0.12 per share) for the 2007 year, as compared to a loss of \$2,286,489 (\$0.07 per share) in 2006.

The Company expects that it will pay both a Thai income tax, at a 50% rate, and a Thai special remuneratory benefit tax on profits, at sliding scale rates (0-75% by concession) in 2008 and beyond.

As a result of increasing production levels and revenues, the Company generated positive cash flow prior to changes in non cash working capital from its consolidated operating activities of \$11,853,329 during 2007. The fourth quarter's cash flow prior to changes in non cash working capital represented \$7.9 million of that number.

During 2007 the Company spent approximately \$22.2 million on petroleum and natural gas property additions including a Na Sanun East seismic program (\$3.0 million), the 100% L53/48 seismic program (\$4.7 million), and significant inventory additions (\$2.1 million) in preparation for continued drilling.

LIQUIDITY

At December 31, 2007, Pan Orient's consolidated accounts included approximately \$38.6 million of working capital including \$36.9 million of cash. The Company's Thailand activities are now self funding and generate excess cash at current operating levels. Existing working capital and cash flows are available for:

- continued drilling onshore Thailand on its 60 percent owned concessions utilizing 2 drill rigs Pan Orient has under long-term contract;
- drilling on the 100% owned L53/48 concession, upon which a 3D seismic acquisition program was completed in the fourth quarter of 2007;
- actively pursuing new ventures opportunities focused on Southeast Asia and South Asia.

In December, 2007, the Company exercised 2,250,000 warrants it held of Andora for \$3,600,000 (\$1.60 per share). These warrants were received in 2006 in conjunction with the 4,981,481 Andora common share subscription. Andora at December 31, 2007 has working capital of \$2.1 million, including both cash of \$5.9 million, and an expected payable to Signet dissenting shareholders of \$3.6 million. If Andora requires additional financing, it will likely be sourced from external sources.

In addition to the \$38.6 million of consolidated working capital, the Company has \$2.2 million of other cash deposits including \$0.9 million relating to L53/48 the concession, located onshore Thailand, and \$1.3 million of customs deposits. Also, the Company holds inventory, included in capital assets, of approximately \$2.1 million in casing and pumps at the end of December 2007 to be used in conjunction with the current drilling program.

The Company is listed on the TSX Venture Exchange. The fully-diluted number of common shares outstanding at the following dates were:

<u>Shares Outstanding</u>	April 30 2008	December 31 2007
Common shares	45,391,442	45,218,842
Employee stock options	4,407,500	4,512,150
Underwriter compensation options	-	78,000
Fully-diluted shares outstanding	49,798,942	49,808,992

COMMITMENTS AND CONTINGENCIES

The Company has entered into agreements to lease premises in both Canada and Thailand, requiring future minimum payments totaling \$1.0 million. Minimum annual payments during the next five fiscal years are as follows:

2008	\$ 238,465
2009	\$ 188,789
2010	\$ 142,680
2011	\$ 142,680
2012	\$ 146,247

On January 9, 2007, the Company signed a new concession agreement with the government of Thailand for block L53/48, located onshore Thailand. The concession agreement includes a minimum three year first exploration phase commitment of \$1,870,000 USD, for which the Company posted a standby letter of credit, secured by cash. At December 31, 2007, \$848,000 has yet to be expended.

As a result of the Signet acquisition, the Company inherited a lawsuit, the likely outcome and potential costs of which are both indeterminable. The Company believes the lawsuit is without merit.

CRITICAL ACCOUNTING POLICIES

Pan Orient follows the full cost method to account for its petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized and accumulated in country-by-country cost centres. These capitalized costs will be depleted using the unit-of-production method based on estimates of proved reserves. The costs in cost centres from which there has been no commercial production are not subject to depletion until commercial production commences. These capitalized costs are assessed to determine whether it is likely such costs will be recovered in the future. Costs which are not likely recovered in the future are written-off.

The Company follows the asset and liability method of accounting for income taxes. At the end of each reporting period the Company estimates its tax pool balances and quantifies differences between the tax pools and the accounting balances. The determination of the amount of the tax asset is a matter of judgment. With the complexity of income tax laws and the use of estimations in determining the utilization of income tax pools, the income tax asset or liability may differ from that recorded.

Tax liabilities require interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of time. Accordingly, the actual income tax asset or liability may differ from that recorded.

CHANGE IN ACCOUNT 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.

Effective January 1, 2007, Pan Orient adopted new Canadian accounting standards relating to accounting for financial instruments. Under the new standards, Pan Orient must recognize all financial instruments and non-financial derivatives, including embedded derivatives, as assets or liabilities and report them in its financial statements. Fair value accounting is deemed to be the most relevant measure for financial instruments and the only relevant measure for derivative financial instruments. Fair value accounting involves recording the financial instrument in the balance sheet as either an asset or a liability with changes in the fair value reflected in net earnings, regardless of whether the change in fair value has been realized or not. In addition, the new standards provide that hedge accounting treatment is available for items designated as being part of an effective hedging relationship. There was no impact on the financial statements as a result of adopting the new standards.

NEW ACCOUNTING PRONOUNCEMENTS

New Canadian accounting recommendations for capital disclosures have been issued which will require additional disclosure of both qualitative and quantitative information about objectives, policies and processes for managing capital. These recommendations are effective for years beginning January 1, 2008.

New Canadian accounting recommendations for additional disclosures about financial instruments have been issued which will require additional disclosure about the nature and extent of risks arising from financial instruments to which Pan Orient is exposed. These recommendations are effective for years beginning January 1, 2008.

In February 2008, the Canadian Institute of Chartered Accountants confirmed that Canadian GAAP for publicly accountable enterprises will be converted to International Financial Reporting Standards (IFRS) on January 1, 2011.

BUSINESS RISK

Companies engaged in the oil and gas industry are exposed to a number of business risks, which can be described as operational, financial and political risks, many of which are outside of Pan Orient's control. More specifically these risks include risks of economically finding reserves and producing oil and gas in commercial quantities, marketing the production, commodity prices, environmental and safety risks, and risks associated with the foreign jurisdiction in which it operates. In order to mitigate these risks, the Company has an experienced base of qualified personnel, technical and financial in both Canada and Thailand, and maintains an insurance program that is consistent with industry standards. Further, the Company has focused its foreign operations in a known hydrocarbon basin in a jurisdiction that has previously established long-term oil and gas ventures with foreign oil and gas companies.

ADDITIONAL INFORMATION

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



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