



**PAN ORIENT ENERGY CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE  
THREE AND SIX MONTHS ENDED JUNE 30, 2010**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

August 24, 2010

### Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of the operating and financial results of Pan Orient Energy Corp. is prepared effective August 24, 2010 and should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2010 and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2009. 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 an oil and natural gas company based in Calgary, Alberta, with properties onshore Thailand, onshore Indonesia and in northern Alberta.

### 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.

The Company provides forward-looking information with respect to reservoir and resource estimates and estimated costs associated with work commitments in Thailand and Indonesia. Reserve and resource estimates are prepared by independent reservoir engineers and there are numerous uncertainties inherent in estimating quantities of oil and the cash flows to be derived therefrom. In general, estimates of economically recoverable volumes and the associated future net cash flows 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 commodities, 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 reserve and resource volumes are only attempts to define the degree of speculation involved. The Company's actual production, revenues and development and operating expenditures with respect to its reserve and resource estimates will vary from estimates thereof and such variations could be material. The Company's estimated commitments are based on internally-prepared budgets and, in the case where a tender process has been completed, actual contracted amounts. The estimated expenditures as provided by management will vary from the actual amounts required to carry out these commitments, and the difference may be significant.

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 estimated reserve and resource volumes; 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 August 24, 2010 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 and reclamation costs 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 June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Cash flow from operating activities	3,494	(36,509)	19,954	(19,571)
Changes in non-cash working capital	9,967	53,086	5,843	51,387
Funds flow from operations	13,461	16,577	25,797	31,816

Field netback is calculated as average unit sales price less royalties, transportation costs and operating expenses. It 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 netback and the calculation is presented in the “Operations Summary” section.

Funds flow from operations, funds flow from operations per barrel, funds flow from operations per share (basic and diluted), and field netback do not have standardized meanings prescribed by Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers. Funds flow is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to funds flow throughout this report are based on funds flow from operations before changes in non-cash working capital and reclamation costs.

## Petroleum and Natural Gas Properties

The Company's principal properties are divided into three distinct groups: 1) partially developed concessions located on-shore Thailand; 2) undeveloped interests on-shore Indonesia; and 3) undeveloped Canadian oil sands leases. Pan Orient is continually pursuing other oil and natural gas exploration acreage in Asia.

### Thailand

The Company has interests in four on-shore concessions in Thailand: Concession SW1A (SW1A); Concession 44/43 (L44); Concession 33/43 (L33); and Concession 53/48 (L53). Pan Orient is the operator for all four concessions with a 60% working interest in concessions SW1A, L44 and L33, and a 100% working interest in concession L53.

- Concession SW1A is developed;
- Concession L44 is partially developed and there is an ongoing active drilling program;
- Concession L53 had an oil discovery in 2009 with the L53-A well and with a production license being granted in August 2010, oil sales commenced in the third quarter of 2010; and
- Concession L33 had an oil discovery in the third quarter of 2010 with the L33-1 well and has been followed-up with an appraisal well. The Company will be applying for a production license based on these drilling results.

Pan Orient sells crude oil with 95% of crude oil sales coming from L44, and the remaining 5% of oil sales coming from SW1A for the first half of 2010. Currently all of the Company's production is sold to a refinery owned by the Thai National Oil Company.

Proved plus probable reserves from concessions SW1A and L44 at December 31, 2009, as evaluated by independent reserve engineers, were 36.7 MMbbl net to Pan Orient. For Concession L53, an evaluation of crude oil resources conducted by independent reserve engineers at March 31, 2010 for the 2 square kilometer production license area around the L53-A discovery well assigned contingent resources of 0.26 million barrels of 1C contingent resources and 1.41 million barrels of 2C contingent resources (with the only contingent item of this third party assessment was the granting of the production license). No evaluation has yet been completed of any contingent resources in Concession L33.

Production performance at the NSE Central field has been below the production forecast for 2P reserves in the December 31, 2009 reserve report and a negative revision to the 2P estimate of 10.8MM barrels net to Pan Orient is likely at year-end 2010. At NSE-F1 results will negatively impact the assessment of 2P and 3P reserves for the NSE-F1 field at year end, likely resulting in the loss of all 3P reserves and a new 2P estimate which is less than half the estimate of 7.2 million barrels net to Pan Orient at December

31, 2009. Management estimates that the majority, and possibly all, of expected negative 2P reserve revisions at the NSE-F1 and NSE Central fields in the 2010 year-end reserve evaluation will be offset by the reserve additions related to the recent discoveries at L33-1, L33-2 and WBEXT-1 and the addition of reserve volumes in Concession L53 which previously had been evaluated as contingent resources as at March 31, 2010.

Pan Orient continues to monitor the current political situation in Thailand. Pan Orient has experienced no security related issues at the Company's production site, located approximately 260 kilometers north of Bangkok. The Company is also not aware of any security related issues at the PTT operated Bangkok refinery, other than a 24 hour production curtailment in May 2010. The current political situation in Thailand has had a limited effect on Pan Orient's operations and is believed by management to be unlikely to affect operations in the future.

#### *Indonesia*

The Company owns a 90% 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 working interest in the South CPP PSC located onshore south central Sumatra. Amounts recorded in the financial statements and work commitments related to these PSCs include a partner's carried interest of 10% for Batu Gajah, 11% for Citarum and 10% for South CPP.

A 500 kilometer 2D seismic program in the Batu Gajah PSC has been completed and the tendering for all drilling and related services will be completed by the second week of September 2010. Surface land acquisition for two locations has been finalized with Ministry of Forestry and approval for a third location is pending and expected in early September. With the delay in Ministry of Forestry approval for one drilling location and the two re-tendering processes that were required for various drilling services, Pan Orient is targeting a November 2010 commencement of drilling for the first well of the three well program. Drilling time per well is estimated to be 14 days with drilling of the three wells completed by year end. Outstanding Ministry of Forestry approval for one of the three drilling locations remains the most significant potential delay factor outside of the Company's control.

The 2D seismic program over the Citarum PSC was completed in July 2010. Two locations have been defined with the exact position of a third location subject to the final interpretation of the last, eastern portion of the 2D seismic program. Drilling of the three well program at Citarum is anticipated to commence towards the end of the first quarter of 2011.

The Company has no drilling planned on South CPP until 2012.

#### *Canada*

Through its 53.4% 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 Sawn Lake property is in the pre-production stage and will not have production revenue until oil production begins. In 2009, Andora received approval from Alberta Environment and the Energy Resources Conservation Board to build and operate a Steam Assisted Gravity Drainage ("SAGD") project. The pilot location is on Andora 100% owned acreage.

The objective of the pilot is to demonstrate the feasibility of producing bitumen from the Bluesky Zone at economic rates and the technical feasibility of the SAGD thermal recovery process. The pilot will consist of a single well pair and associated steam injection and bitumen production facilities for an estimated cost of \$15 million. All season access into the site was completed in December 2009. The timing for equipment procurement, construction of the project facility and drilling of the well pair has yet to be determined.

Probable reserves at December 31, 2009, as evaluated by independent reserve engineers, were 131.8 MMbbl net to Andora (70.1 MMbbl net to Pan Orient).

## Operations Summary

(thousands of Canadian dollars except where indicated)

	Three Months Ended June 30,		Six Months Ended June 30,		Change
	2010	2009	2010	2009	
<b>FINANCIAL</b>					
Oil revenue, before royalties and transportation expense	22,436	26,432	47,474	53,132	-11%
Funds flow from operations (Note 1)	13,461	16,577	25,797	31,816	-19%
Per share – basic	\$ 0.28	\$ 0.36	\$ 0.54	\$ 0.69	-22%
Per share – diluted	\$ 0.27	\$ 0.34	\$ 0.53	\$ 0.67	-21%
Funds flow from operations by region (Note 1)					
Canada	818	323	849	(587)	
Thailand	12,756	16,475	25,119	32,533	-23%
Indonesia	(113)	(221)	(171)	(130)	31%
Total	13,461	16,577	25,797	31,816	-19%
Net income (loss) attributable to common shareholders	3,948	(5,349)	7,353	(2,468)	
Per share - basic	\$ 0.08	\$ (0.12)	\$ 0.15	\$ (0.05)	
Per share - diluted	\$ 0.08	\$ (0.12)	\$ 0.15	\$ (0.05)	
Working capital	20,035	36,905	20,035	36,905	-46%
Working capital plus long-term deposits	24,029	41,969	24,029	41,969	-43%
Long-term debt	-	-	-	-	
Capital expenditures (Note 2)	16,409	14,906	36,678	28,502	29%
Shares outstanding (thousands)	48,594	46,168	48,594	46,168	5%
<b>Funds flow from operations per barrel</b>					
Canada operations	\$ 2.61	\$ 0.73	\$ 1.29	\$ (0.60)	
Thailand operations	40.66	37.40	38.22	32.68	17%
Indonesia operations - G&A expense	(0.36)	(0.49)	(0.26)	(0.13)	103%
	\$ 42.90	\$ 37.64	\$ 39.25	\$ 31.95	23%
<b>Capital Expenditures (Note 2)</b>					
Canada	346	103	410	248	65%
Thailand	9,582	12,465	23,001	23,242	-1%
Indonesia	6,481	2,339	13,267	5,012	165%
Total	16,409	14,906	36,678	28,502	29%
<b>Working Capital and Deposits</b>					
Working Capital & Deposits - beginning of period	25,358	47,705	32,738	46,386	-29%
Funds flow from operations (Note 1)	13,461	16,577	25,797	31,816	-19%
Capital expenditures (Note 2)	(16,409)	(14,906)	(36,678)	(28,502)	29%
Non-cash settlement of Andora receivable	-	-	(600)	-	
Foreign exchange impact on working capital	(102)	(7,957)	(475)	(8,281)	-94%
Net proceeds on share transactions	1,721	550	3,247	550	490%
Working Capital & Deposits - end of period	24,029	41,969	24,029	41,969	-43%
<b>Canada Operations</b>					
Interest income	6	3	14	23	-38%
General and administrative recovery (expense)	707	(425)	737	(1,095)	-167%
Realized foreign exchange gain	162	745	155	522	-70%
Foreign new ventures expenditures	(57)	-	(57)	(36)	58%
Funds flow from operations	818	323	849	(587)	
Funds flow from operations per barrel					
Interest income	\$ 0.02	\$ 0.01	\$ 0.02	\$ 0.02	-12%
General and administrative expense	2.25	(0.97)	1.12	(1.10)	
Realized foreign exchange loss	0.52	1.69	0.24	0.52	-55%
Foreign new ventures expenditures	(0.18)	-	(0.09)	(0.04)	140%
	\$ 2.61	\$ 0.73	\$ 1.29	\$ (0.60)	

	Three Months Ended June 30,		Six Months Ended June 30,		Change
	2010	2009	2010	2009	
<i>(thousands of Canadian dollars except where indicated)</i>					
<b>Thailand Operations</b>					
Total crude oil sales (bbl)	<b>313,757</b>	440,484	<b>657,157</b>	995,304	-34%
Average daily oil sales (bbl/d)	<b>3,448</b>	4,840	<b>3,631</b>	5,499	-34%
Average oil sales price, before transportation (CDN\$/bbl)	<b>\$ 71.51</b>	\$ 60.01	<b>\$ 72.24</b>	\$ 53.38	35%
Reference Price (volume weighted) and differential					
Crude oil (WTI \$US/bbl)	<b>\$ 77.82</b>	\$ 59.20	<b>\$ 78.35</b>	\$ 50.00	57%
Exchange Rate \$US/\$Cdn	<b>1.037</b>	1.169	<b>1.048</b>	1.209	-13%
Crude oil (WTI \$Cdn/bbl)	<b>\$ 80.73</b>	\$ 69.23	<b>\$ 82.13</b>	\$ 60.45	36%
Sales price / WTI reference price	<b>89%</b>	87%	<b>88%</b>	88%	
Funds flow from operations (Note 1)					
Crude oil sales	<b>22,436</b>	26,432	<b>47,474</b>	53,132	-11%
Government royalty	<b>(1,358)</b>	(1,877)	<b>(2,947)</b>	(3,972)	-26%
Other royalty	<b>(26)</b>	(22)	<b>(47)</b>	(42)	12%
Transportation expense	<b>(802)</b>	(1,065)	<b>(1,666)</b>	(2,318)	-28%
Operating expense	<b>(1,949)</b>	(1,866)	<b>(4,147)</b>	(3,281)	26%
Field Netback	<b>18,301</b>	21,602	<b>38,667</b>	43,519	-11%
General and administrative expense	<b>(1,159)</b>	(1,094)	<b>(2,434)</b>	(2,037)	19%
Interest Income	<b>24</b>	106	<b>52</b>	390	-87%
Special Remuneratory Benefit (SRB)	<b>(737)</b>	(1,371)	<b>(2,906)</b>	(4,291)	-32%
Current income tax	<b>(3,673)</b>	(2,768)	<b>(8,260)</b>	(5,048)	64%
Funds flow from operations	<b>12,756</b>	16,475	<b>25,119</b>	32,533	-23%
Funds flow from operations per barrel (CDN\$/bbl)					
Crude oil sales	<b>\$ 71.51</b>	\$ 60.01	<b>\$ 72.24</b>	\$ 53.38	35%
Government royalty	<b>(4.33)</b>	(4.26)	<b>(4.48)</b>	(3.99)	12%
Other royalty	<b>(0.08)</b>	(0.05)	<b>(0.07)</b>	(0.04)	69%
Transportation expense	<b>(2.56)</b>	(2.42)	<b>(2.53)</b>	(2.33)	9%
Operating expense	<b>(6.21)</b>	(4.24)	<b>(6.31)</b>	(3.30)	91%
Field Netback	<b>58.33</b>	49.04	<b>58.84</b>	43.72	35%
General and administrative expense	<b>(3.69)</b>	(2.48)	<b>(3.70)</b>	(2.05)	81%
Interest Income	<b>0.08</b>	0.24	<b>0.08</b>	0.39	-80%
Special Remuneratory Benefit (SRB)	<b>(2.35)</b>	(3.11)	<b>(4.42)</b>	(4.31)	3%
Current income tax	<b>(11.71)</b>	(6.28)	<b>(12.57)</b>	(5.07)	148%
Thailand - Funds flow from operations	<b>\$ 40.66</b>	\$ 37.40	<b>\$ 38.22</b>	\$ 32.68	17%
Government royalty as percentage of crude oil sales	<b>6%</b>	7%	<b>6%</b>	7%	-1%
SRB as percentage of crude oil sales	<b>3%</b>	5%	<b>6%</b>	8%	-2%
Income tax as percentage of crude oil sales	<b>16%</b>	10%	<b>17%</b>	10%	8%
As percentage of crude oil sales					
Expenses - transportation, operating, G&A and other	<b>17.5%</b>	15.3%	<b>17.5%</b>	14.4%	3%
Government royalty, SRB and income tax	<b>25.7%</b>	22.8%	<b>29.7%</b>	25.1%	5%
Funds flow from operations, before interest income and realized foreign exchange	<b>56.8%</b>	61.9%	<b>52.8%</b>	61.5%	-9%
Wells drilled					
Gross	<b>7</b>	8	<b>12</b>	15	-20%
Net	<b>4.2</b>	4.8	<b>7.2</b>	9.0	-20%

(1) Funds flow from operations ("funds flow" before changes in non-cash working capital and reclamation costs) is used by management to analyze operating performance and leverage. Funds flow as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures of other entities.

Funds flow is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to funds flow throughout this report are based on funds flow from operations before changes in non-cash working capital and reclamation costs.

(2) Cost of capital expenditures, excluding any asset retirement obligation and excluding the impact of changes in foreign exchange rates.

(3) Totals may not add due to rounding

## HIGHLIGHTS

- Pan Orient drilled seven wells (4.2 net wells) in Thailand during the second quarter of 2010 with three appraisal wells at Bo Rang “B”, three appraisal wells at the NSE-F1 field to further define fields discovered in 2009, and one NSE development well. Total capital expenditures in Thailand were \$9.6 million.
- Thailand operations in the second quarter had oil sales of 3,448 BOPD, of which 55% was produced from the Bo Rang “A” & “B” fields. Funds flow from operations after tax in Thailand was \$12.8 million, or \$40.66 per barrel.
- Capital expenditures of \$6.5 million in Indonesia during the second quarter focused on completion of the two seismic programs. Pan Orient is targeting a November, 2010 commencement of drilling for the first well of three back to back wells in the Batu Gajah PSC in Sumatra, Indonesia. The drilling program in the Citarum PSC area in Java, Indonesia is anticipated to commence towards the end of the first quarter of 2011.
- For the second quarter of 2010, Pan Orient had total corporate funds flow from operations of \$13.5 million, or \$0.27 per share, funding 82% of the \$16.4 million of total capital expenditures in Thailand, Indonesia and Canada. Net income attributable to common shareholders for this period was \$3.9 million, or \$0.08 per share.
- At June 30, 2010 Pan Orient had \$24.0 million of working capital and long-term deposits, and no long-term debt.
- Subsequent to June 30<sup>th</sup>, exploration drilling by Pan Orient has resulted in two new field discoveries with the Wichian Buri Extension 1 well (WBEXT-1) and the L33-1 well in Concession L33.

The WBEXT-1 exploration well established commercial oil production approximately 2.5 kilometers northeast of the nearest Wichian Buri field producing well. The WBEXT-1 well is producing under a 90 day production test and has averaged 2,020 BOPD net to Pan Orient from the volcanic reservoir over the past 15 days. The WBEXT-1A appraisal well is currently setting casing just above a deeper, second potential volcanic reservoir that was not penetrated in the WBEXT-1 discovery well.

The L33-1 exploration well in Concession L33 discovered a new volcanic reservoir approximately 4.5 kilometers north of the Concession L44 / Concession L33 boundary and represents the first discovery of hydrocarbon at commercial rates in Concession L33. The L33-1 well tested oil production at 660 BOPD, and the follow-up L33-2 appraisal well tested oil at 1,422 BOPD. Until a production license is approved by the Thailand Department of Mineral Fuels (“DMF”), historically 90 days from the date of the application submission, no production may be sold from wells in Concession L33 since a point of sale has not been established by a production license within the concession.

- In August, Pan Orient received formal approval by the DMF for the two square kilometer L53-A Production License around the L53-A exploration well. The L53-A well resumed production on August 17, 2010 and is currently producing at approximately 260 BOPD with a water cut of 30 %.

## 2010 SECOND QUARTER RESULTS

- During the second quarter of 2010 Pan Orient drilled seven wells (4.2 net wells) in Thailand with capital expenditures of \$9.6 million. The Thailand drilling program in the second quarter of 2010 was focused on appraisal drilling at Bo Rang “B” and NSE-F1 to further define fields discovered in 2009. During the quarter, three appraisal wells were drilled at the Bo Rang “B” field, three appraisal wells were drilled at the NSE-F1 field and one NSE development well was drilled in the NSE Central Field. The reduction in the level of Thailand capital expenditures in the second quarter of 2010 compared with the first quarter is largely due to the concentration of drilling in Concession L44 in which Pan Orient has a 60% ownership compared to extensive expenditures in the first quarter of 2010 in Concession L53, which is 100% owned by Pan Orient.
- In the first half 2010 Pan Orient drilled twelve wells (7.2 net wells) with five development & appraisal wells at the Bo Rang “B” field, the first three appraisal wells in the NSE-F1 field, and the drilling of four additional wells in Na Sanun East. Pan Orient also completed the drilling and testing of the two 2009 exploration wells in the 100% owned Concession L53 with a cost of \$4.0 million in 2010. Total capital expenditures in Thailand of \$23.0 million for the six months ended June 30, 2010 have been fully funded by oil sales in Thailand which has generated \$25.1 million in funds flow from operations during this period.

In the first six months, Pan Orient drilled two development wells and three appraisal wells at Bo Rang “B” at a cost of \$5.2 million. This has resulted in four producing oil wells which contributed an average of 886 BOPD in the second quarter of 2010, and is currently producing approximately 792 BOPD. Total oil production from the Bo Rang “A&B” fields in the second quarter of 2010 averaged 1,890 BOPD and represented 55% of total Pan Orient production.

Four wells were drilled at Na Sanun East in the first six months at a cost of \$7.7 million. The NSE-G3 exploration well is currently suspended and will be re-entered and sidetracked in order to test a deep volcanic target once the pre stack depth migration processing of the 3D seismic survey over this area is completed. The NSE-E3 horizontal well is the third well drilling into the NSE-E1 structure, contributed an average of 331 BOPD in the second quarter of 2010, and is currently producing approximately 158 BOPD. The NSE-H3 well produced mainly gas from a secondary gas cap with some oil, and is currently shut-in. The NSE-B3 well is on production with current oil production of 60 BOPD and contributed an average of 14 BOPD for the second quarter of 2010.

The first three appraisal wells have been drilled in the second quarter in the NSE-F1 field at a cost of \$2.2 million to further define the oil pool. The NSE-F2 well is currently on production at 25 BOPD, the NSE-F3 well is a shut-in gas well and the NSE-F4 well is shut-in and awaiting a work-over whereby four small diameter horizontal legs will be drilled to a length of 100 meters from the existing well bore utilizing jetting technology.

- Thailand oil sales for the second quarter of 2010 were 3,448 BOPD compared with 3,816 BOPD in the first quarter of 2010, representing a 10% decline during the quarter. In the second quarter of 2010, the Bo Rang "A" & "B" fields contributed 55% of oil sales volume, the Na Sanun East field contributed 36% of oil sales volume and 9% came from other fields. Production additions in the first half of 2010, primarily from the four new producing wells at Bo Rang "B" and the NSE-E3STI well, did not fully replace production declines. The drilling program in the second quarter focused on appraisal drilling at the Bo Rang "B" and NSE-F1 fields and did not generate the expected production increases. Oil sales volumes to June 30, 2010 do not include the approximately 13,500 barrels of oil production from the testing of the L53-A well which was stored in tanks until a production license for Concession L53 was received in August.

On a year to date basis, average oil sales for the first half of 2010 was 3,631 BOPD compared with 5,499 BOPD for the first half of 2009.

- Operations in Thailand for the second quarter of 2010, generated \$12.8 million in funds flow from operations, with transportation expenses of \$2.56 per barrel, operating expenses of \$6.21 per barrel, G&A of \$3.69 per barrel and funds flow from operations per barrel of \$40.66. Funds flow from operations increased 3% compared to the previous quarter, with the 10% reduction in oil sales volume being more than offset by a significant reduction in Special Remuneratory Benefit and income tax expenses resulting from the high level of reinvestment into Concession L44 and minimal reinvestment in Concession L53. In the second quarter of 2010, Thailand crude oil revenue was allocated 17.5% to expenses for transportation, operating, and general & administrative, 25.7% to the government of Thailand in the form of royalties, Special Remuneratory Benefit and Income Tax, and 56.8% to Pan Orient.
- On a year to date basis, the operations in Thailand have generated \$25.1 million in funds flow from operations, with transportation expenses of \$2.53 per barrel, operating expenses of \$6.31 per barrel, G&A of \$3.70 per barrel and funds flow from operations per barrel of \$38.22. Thailand crude oil revenue for the six months ended June 30, 2010 has been allocated 17.5% to expenses for transportation, operating, and general & administrative, 29.7% to the government of Thailand in the form of royalties, Special Remuneratory Benefit and Income Tax, and 52.8% to Pan Orient.
- Total funds flow from operations of Pan Orient for the quarter was \$13.5 million compared with \$12.3 million for the first quarter of 2010 and \$16.6 million for the second quarter of 2009. Funds flow from operations per share (diluted) was \$0.27 for the second quarter of 2010 and \$0.53 year to date.
- Net income attributable to common shareholders for the three months ended June 30, 2010 was \$3.9 million, or \$0.08 per share, compared with \$3.4 million, or \$0.07 per share, for the first quarter of 2010. On a year to date basis, Pan Orient reports net income attributable to common shareholders of \$7.4 million, or \$0.15 per share to June 30, 2010.
- Pan Orient continued active capital programs in both Thailand and Indonesia in the second quarter of 2010. Total capital expenditures for the quarter were \$16.4 million, with \$9.6 million in Thailand and \$6.5 million in Indonesia. Total capital expenditures to June 30, 2010 have been \$36.7 million with \$23.0 million in Thailand primarily for drilling operations, and \$13.3 million in Indonesia primarily on seismic operations.
- Capital expenditures in Indonesia were \$6.5 million for the second quarter and \$13.3 million for the six months ended June 30, 2010. Capital expenditures of \$6.3 million for the Batu Gajah PSC and \$6.9 million for the Citarum PSC in the first half of 2010 primarily relate to completion of the seismic programs.
- Pan Orient continues to maintain its financial strength and flexibility. At June 30, 2010 Pan Orient had \$24.0 million of working capital and long-term deposits, and no long-term debt. For the six months ended June 30, 2010 Pan Orient had funds flow from operations of \$25.8 million, funding 70% of the \$36.7 million of total capital expenditures in Thailand, Indonesia and Canada. For the second quarter of 2010, Pan Orient had funds flow from operations of \$13.5 million, funding 82% of the \$16.4 million of total capital expenditures in



Thailand, Indonesia and Canada. In addition, at June 30, 2010 Pan Orient had \$7.8 million of equipment inventory to be utilized for future Thailand and Indonesia operations that is included in petroleum and natural gas assets on the balance sheet.

## Revenue and Production

The price Pan Orient receives for its production is determined by petroleum benchmark prices, and to a lesser extent, the effect of the Canadian dollar exchange rate relative to the U.S. dollar and the Thai baht. Oil prices fluctuate in response to global supply and demand and, along with foreign currency rates, are influenced by factors out of the Company's control. The Company's realized price, discounted for the paraffin content of its oil, was 89% and 88% of the WTI reference price for the three and six months ended June 30, 2010, respectively. In Q2 2010 the WTI \$CDN reference price was 17% higher than in Q2 2009 and 3% lower than Q1 2010.

Thailand oil sales volumes for the three and six months ended June 30, 2010 were 3,448 BOPD and 3,631 BOPD, respectively (excluding production from the 90 day production test of the L53-A well which was held in tanks and not sold until after the Company was granted a new production license in August 2010). This compares with 3,816 BOPD for the first quarter of 2010, 4,840 BOPD for the second quarter of 2009, and 5,499 BOPD for the six months ended June 30, 2009. In the second quarter of 2010, the Bo Rang "A" & "B" fields contributed 55% of oil sales volume, the Na Sanun East field contributed 36% of oil sales volume and 9% came from other fields. Production additions in the first half of 2010, primarily from the four new producing wells at Bo Rang "B" and the NSE-E3STI well, did not fully replace production declines. The drilling program in the second quarter focused on appraisal drilling at the Bo Rang "B" and NSE-F1 fields and did not generate the expected production increases.

Although revenues were down for the three and six months ended June 30, 2010, the Company's netbacks were 14% and 23% higher compared to the respective periods in 2009 primarily as a result of higher oil prices. The increase in netbacks due to higher oil prices was offset by increases in operating expenses and current income tax expense.

## Royalties

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Royalties - \$000s	<b>1,384</b>	1,899	<b>2,994</b>	4,014
Royalties - \$/bbl	<b>4.41</b>	4.31	<b>4.56</b>	4.03
Royalties - % of revenue	<b>6.2</b>	7.2	<b>6.3</b>	7.6

The Company pays two types of royalties: 1) to the Thai government on all production volumes; and 2) an 8% gross overriding royalty ("GORR") on a small portion of production from the Wichian Buri oil field. The GORR is payable on less than 1% of the Company's revenue and does not have a significant impact on the 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 BOPD to 15% on production in excess of 20,000 BOPD per concession. Approximately 95% of crude oil sales are from the L44 Concession with the remaining 5% from the SW1A Concession. Lower production volumes in 2010 resulted in a lower royalty rate. Overall 2010 quarterly and year-to-date royalties were lower than in the previous periods as a result of lower revenues. The royalties per barrel for the three and six months ended June 30, 2010 due to the increased realized sale price for crude oil.

## Production Expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
<b>(\$000s)</b>				
Transportation expenses	802	1,065	1,666	2,318
Operating expenses	1,949	1,866	4,147	3,281
Total production expenses	2,751	2,931	5,813	5,599
<b>(\$/bbl)</b>				
Transportation expenses	2.56	2.42	2.53	2.33
Operating expenses	6.21	4.24	6.31	3.30
Total production expenses	8.77	6.66	8.84	5.63

Transportation expenses represent the cost to truck the Company's oil production in Thailand to the refinery in Bangkok. The Company is charged a contracted rate based on volumes transported therefore on a per barrel basis, costs are relatively consistent regardless of production volumes.

Approximately 51% of the Company's operating expenses relate to operating personnel and the field office, and the remaining 49% are related to well operations. 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. Overall and per barrel operating expenses have increased, reflecting the growth in the Company's operations since 2009. Higher 2010 operating expenses per barrel are a function of higher level of expenses and reduced volumes. Higher operating expenses per barrel for the three and six months ended June 30, 2010 versus the three and six months ended June 30, 2009 is primarily the result of increased personnel costs, additional production sites, fuel, repair and maintenance costs, and water handling associated with these additional locations.

## Depletion, Depreciation and Accretion

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Depletion, depreciation and accretion – \$000s	3,526	3,543	7,190	10,302
Depletion, depreciation and accretion – \$/bbl	11.24	8.04	10.94	10.35

Depletion, depreciation and accretion ("DD&A") expense for the three and six months ended June 30, 2010 consists primarily of depletion of Pan Orient's Thailand petroleum and natural gas properties. As the Company's Canadian and Indonesian assets are in the pre-production phase, depletion is not calculated for these cost centres.

DD&A expense per barrel for the three and six months ended June 30, 2010 is higher than the three and six months ended June 30, 2009 as a result of a significantly higher depletable cost base. The overall DD&A expense for the three and six months ended June 30, 2010 is lower than the respective periods in 2009 due to a lower depletion rate which resulted from a significant increase in reserves and lower production in 2010.

Costs subject to depletion included \$16.2 million (2009 - \$10.3 million) of estimated future development costs for proved reserves.

## Taxes

(\$000s)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Special remuneratory benefit	737	1,371	2,906	4,291
Current tax	3,673	2,768	8,260	5,048
Total current tax	4,410	4,139	11,166	9,339
Future tax expense	1,966	6,090	6,817	11,533
Total tax expense	6,376	10,229	17,983	20,872

Pan Orient's current taxes consist of income tax and a special remuneratory benefit (SRB) on its Thailand operations.

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 deductions for expenses and capital spent. The rate is principally determined by revenue for the concession (production and pricing) but is subject to other adjustments such as changes in Thailand's consumer and wholesale price indices and cumulative metres drilled on the concession. Currently the Company pays SRB on its L44 Concession only and the SRB rate applicable to petroleum profits of this concession (after deduction of capital expenditures) was 18% for the six months ended June 30, 2010 compared with 24% for the six months ended June 30 2009 due to lower revenue in the concession.

Income tax is 50% of taxable income which is calculated based on funds flow from operations less capital expenditures (deductible at varying rates), SRB, and other permitted deductions. Income taxes of \$3.7 million and \$8.3 million for the three and six months ended June 30, 2010 were higher than the comparable periods in 2009 mainly as a result of lower deductions for capital expenditures in Concession L44 and lower tax depletion due to increased reserves at December 31, 2009. Because of the deductions allowed for capital spent, the effective rates of these taxes can vary significantly from the actual tax rates.

For the quarter ended June 30, 2010 SRB was 3% (2009 – 5%) of total revenue and income tax was 16% (2009 – 11%) of total revenue.

Taxes payable of \$11.7 million at June 30, 2010 represents SRB and income tax for the six months ended June 30, 2010.

### General and Administrative (G&A) Expenses (excluding stock based compensation expense)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
G&A, net of overhead recoveries - \$000s	1,497	2,595	3,910	4,920
Capitalized G&A	(932)	(855)	(2,042)	(1,658)
G&A, net - \$000s	565	1,740	1,868	3,262
G&A – \$/bbl	1.80	3.95	2.84	3.28

G&A expenses as reported are net of overhead recoveries and G&A expenses allocated to capital projects. Overhead recoveries are the allocation and recovery from third parties of G&A expenses on Pan Orient operated properties.

G&A for Q2 2010 versus Q2 2009 has decreased as a result of the following:

- increased overhead recoveries from operations and third parties;
- the annual bonus for Canadian personnel which was recorded in the first quarter of 2010 versus the second quarter of 2009; and
- severance payments recorded in the second quarter of 2009.

G&A for the six months ended June 30, 2010 has been affected by several payments and offsetting recoveries in Canada and Thailand which are not expected to occur on a regular basis in future periods. These items include recoveries from third parties of approximately \$0.7 million related to stock options exercised by Thailand personnel plus severance payments and other non-routine expenses associated with the reduction of expatriate personnel in Thailand.

G&A expenses allocated to capital projects represent compensation and other costs associated with property acquisition, exploration and development activities. Capitalized G&A in the current quarter relates to the L53 concession in Thailand, the Indonesia properties acquired in mid 2008, and the Company's heavy oil development project in Canada. Amounts capitalized

continue to increase relative to 2009 primarily due to the Company's Indonesia operations. These allocations are reviewed periodically by management and will continue to reflect the nature of the Company's capital activities in future periods.

## Capital Invested

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Thailand	9,582	12,464	23,001	23,242
Indonesia	6,481	2,339	13,267	5,012
Canada	346	103	410	248
Total capital expenditures	16,409	14,906	36,678	28,502

### Thailand

During the second quarter of 2010 Pan Orient drilled seven wells (4.2 net wells) in Thailand with capital expenditures of \$9.6 million. The Thailand drilling program in the second quarter of 2010 was focused on appraisal drilling at Bo Rang "B" and NSE-F1 to further define fields discovered in 2009. During the quarter, three appraisal wells were drilled at the Bo Rang "B" field, three appraisal wells were drilled at the NSE-F1 field and one NSE development well was drilled in the NSE Central Field. The reduction in the level of Thailand capital expenditures in the second quarter of 2010 compared with the first quarter is largely due to the concentration of drilling in Concession L44 in which Pan Orient has a 60% ownership compared to extensive expenditures in the first quarter of 2010 in Concession L53, which is 100% owned by Pan Orient.

In the first half 2010 Pan Orient drilled twelve wells (7.2 net wells) with five development & appraisal wells at the Bo Rang "B" field, the first three appraisal wells in the NSE-F1 field, and the drilling of four additional wells in Na Sanun East. Pan Orient also completed the drilling and testing of the two 2009 exploration wells in the 100% owned Concession L53 with a cost of \$4.0 million in 2010. Total capital expenditures in Thailand of \$23.0 million for the six months ended June 30, 2010 have been fully funded by oil sales in Thailand which has generated \$25.1 million in funds flow from operations during this period.

In the first six months, Pan Orient drilled two development wells and three appraisal wells at Bo Rang "B" at a cost of \$5.2 million. This has resulted in four producing oil wells which contributed an average of 886 BOPD in the second quarter of 2010, and is currently producing approximately 792 BOPD. Total oil production from the Bo Rang "A&B" fields in the second quarter of 2010 averaged 1,890 BOPD and represented 55% of total Pan Orient production.

Four wells were drilled at Na Sanun East in the first six months at a cost of \$7.7 million. The NSE-G3 exploration well is currently suspended and will be re-entered and sidetracked in order to test a deep volcanic target once the pre stack depth migration processing of the 3D seismic survey over this area is completed. The NSE-E3 horizontal well is the third well drilling into the NSE-E1 structure, contributed an average of 331 BOPD in the second quarter of 2010, and is currently producing approximately 158 BOPD. The NSE-H3 well produced mainly gas from a secondary gas cap with some oil, and is currently shut-in. The NSE-B3 well is on production with current oil production of 60 BOPD and contributed an average of 14 BOPD for the second quarter of 2010.

The first three appraisal wells have been drilled in the second quarter in the NSE-F1 field at a cost of \$2.2 million to further define the oil pool. The NSE-F2 well is currently on production at 25 BOPD, the NSE-F3 well is a shut-in gas well and the NSE-F4 well is shut-in and awaiting a work-over whereby four small diameter horizontal legs will be drilled to a length of 100 meters from the existing well bore utilizing jetting technology.

### Indonesia

Capital expenditures of \$6.5 million in Indonesia during the second quarter focused on completion of the two seismic programs. Pan Orient is targeting a November, 2010 commencement of drilling for the first well of three back to back wells in the Batu Gajah PSC in Sumatra, Indonesia. The drilling program in the Citarum PSC area in Java, Indonesia is anticipated to commence towards the end of the first quarter of 2011.

The Company's required future capital expenditures for Indonesia will be determined by the timing and extent of work commitments and are estimated under "Commitments".

## Liquidity and Capital Resources

### Liquidity

At June 30, 2010 Pan Orient's cash and cash equivalents was \$29.6 million compared to \$44.8 million at December 31, 2009. At June 30, 2010, \$11.1 million (December 31, 2009 - \$25.3 million) was held in Thailand, \$17.4 million (December 31, 2009 - \$17.4) was held in Canada, and the remainder in Indonesia. The Company's treasury policy involves transferring excess capital from Thailand to Canada on a regular basis to closely monitor foreign exchange and interest earned as well as to have funds available

for redistribution to Indonesia as needed. The Company's current cash balance in Canada is held at interest rates similar to short term deposits.

Pan Orient has funded its 2010 capital program through funds generated from operating activities and existing working capital. The Company's working capital position is forecasted regularly and the Company plans to fund future capital expenditures and commitments with existing cash balances, equipment inventory, and expected cash flows from Thailand operations.

Working capital plus non current cash deposits at June 30, 2010 was \$24.0 million compared to \$32.7 million at December 31, 2009. The decrease is attributable to capital expenditures in excess of funds flow from operations. Non current cash deposits relate to guarantees to the Thailand and Indonesia governments for the Company's work commitments and customs importation permits in Thailand.

The change in working capital plus deposits was as follows:

<b>Working Capital Plus Deposits</b> <b>(\$000s)</b>	<b>Three Months Ended</b> <b>June 30</b>		<b>Six Months Ended</b> <b>June 30</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Balance at beginning of period	<b>25,358</b>	47,705	<b>32,738</b>	46,386
Funds flow from operations	<b>13,461</b>	16,577	<b>25,797</b>	31,816
Capital expenditures	<b>(16,409)</b>	(14,906)	<b>(36,678)</b>	(28,502)
Non-cash settlement of Andora receivable	-	-	<b>(600)</b>	-
Foreign exchange impact on working capital	<b>(102)</b>	(7,957)	<b>(475)</b>	(8,281)
Net proceeds on share transactions	<b>1,721</b>	550	<b>3,247</b>	550
Balance at end of period	<b>24,029</b>	41,969	<b>24,029</b>	41,969

At June 30, 2010, Pan Orient held \$5.8 million of equipment inventory to be utilized for future Thailand and Indonesia operations that is included in petroleum and natural gas assets on the balance sheet.

### ***Current Economic Conditions***

The economic downturn in 2008 decreased world oil consumption and resulted in higher inventory levels and reduced prices. From the first quarter of 2009 to the second quarter of 2010 oil prices have increased in accordance with rising consumption levels and improving confidence in the world financial situation. The sustainability of the level of crude oil prices at June 30, 2010 is uncertain, particularly considering current inventory levels, surplus productive capacity and uncertainty with respect to the timing of full economic recovery. World oil prices affect not only current cash flows of oil and gas companies but also expected future cash flows, thus impacting the ability to carry out planned activities necessary for future growth. The industry has also become challenged by reduced liquidity in financial markets and limited access to financing. Given the Company's present working capital position and ability to generate positive cash flows in the prior year price environments, management does not expect any current capital programs to be curtailed however the Company continues to proactively forecast cash flows to assess whether planned capital activities are manageable.

### ***Share Capital***

<b>Outstanding at period-end</b>	<b>August 24, 2010</b>	<b>June 30, 2010</b>
Common shares	48,619,200	48,594,200
Stock options	4,547,166	4,572,166
Total	53,166,366	53,166,366

On April 16, 2010 Pan Orient granted options to purchase 2,411,500 common shares under Pan Orient's stock option plan, of which 2,275,000 were granted to directors and officers. Each option has an exercise price of \$7.15 (being the April 15, 2010 closing price of the shares on the TSX Venture Exchange); vest as to 1/3 on the grant date and 1/3 on each of the first and second anniversaries of the grant date and expire on April 16, 2014.

The original grant of options to officers and directors of Pan Orient on April 17, 2005 had an expiry date of April 17, 2010. A total of 1,634,000 common shares have been issued in 2010 pursuant to the exercise by officers and directors of this original grant of options.

## 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 changes in the values of the Thai baht and U.S. dollar relative to the Company's reporting currency must be recognized. The period end rates used to translate the Company's Thai baht and U.S. dollar denominated financial statement items for the reporting periods as specified were as follows:

	2010			2009			2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>Rate at end of period</b>								
Thai baht / CAD \$ exchange	<b>30.44</b>	31.42	31.53	30.69	29.14	27.96	28.43	32.15
U.S. dollar / CAD \$ exchange	<b>1.06</b>	1.016	1.047	1.072	1.115	1.257	1.223	1.039

The Company's treasury function has been established with the goal of minimizing foreign currency exchange fluctuations to the extent possible. Surplus funds are expatriated to Canada to hold in Canadian dollars, ensuring that an appropriate cushion of Thai baht is held in Thailand to satisfy payments in that currency as they come due, the most significant of which are the Company's SRB and taxes.

Translation gains (losses) were allocated as follows:

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Unrealized foreign exchange (loss) gain	(94)	(11,801)	(258)	(11,726)
Net gain (loss) recorded in AOCI	<b>6,070</b>	388	<b>4,957</b>	(508)
	<b>5,976</b>	11,413	<b>4,699</b>	12,234

## Commitments

As at June 30, 2010 the Company's estimated outstanding capital commitments were as follows:

Country and Concession Name	Remaining Work Program Commitment	Obligation Period Ending	Estimated Net Financial Commitment	
			USD (\$000s)	CAD (\$000s) <sup>(1)</sup>
<b>Thailand</b>				
L 44/43	▪ study and training fund	July 2012	18	19
L33/43	▪ geological studies	July 2012	30	32
	▪ study and training fund	July 2012	18	19
L 53/48	▪ drill 4 exploration wells	January 2013	1,300	1,378
	▪ geological studies		120	127
	▪ study and training fund		47	50
<b>Indonesia <sup>(2)</sup></b>				
Citarum (3)	▪ 270 km 2D seismic	October 2011	9,069	9,613
	▪ drill 3 exploration wells			
Batu Gajah (3)	▪ 400 km 3D seismic	January 2013	22,747	24,112
	▪ drill 3 exploration wells			
South CPP (3)	▪ 200 km 2D seismic	November 2011	6,199	6,571
	▪ drill one exploration well			
<b>Total</b>			<b>39,548</b>	<b>41,921</b>

(1) Translated at June 30, 2010 exchange rate of US \$1 = CAD \$1.06.

(2) The Company owns a 90% working interest in the Batu Gajah PSC, a 69% operated working interest in the Citarum PSC, and a 90% operated working interest in the South CPP PSC. Amounts recorded in the financial statements and work commitments related to these PSCs include amounts paid by Pan Orient on behalf of a partner's carried interest (10% for Batu Gajah, 11% for Citarum and 10% for South CPP).

(3) "Work Program Commitment" is primarily based on the PSC contracts but also includes certain revisions with respect to work required and timing of completion negotiated with and approved by the Government of Indonesia.

Indonesia financial commitments as provided above represent the current exploration phase that the Company is conducting. If Pan Orient exercises its options to continue beyond the obligation periods noted, additional commitments will be determined on a year-by-year basis through submission of a work program and approval from the Government of Indonesia (GOI). The actual commitments are the work programs themselves as specified in the PSC agreement.

The obligation period shown for Citarum and Batu Gajah differs from the PSC agreement as commitments from previous years have been deferred and rolled forward. Every year the Company submits a work program for each PSC to the GOI and along with it, a request to roll forward any incomplete commitments from the previous year. Although this request is a departure from the original contract, it is considered standard practice in Indonesia. The above obligation periods for Citarum and Batu Gajah are consistent with this practice. In the past, such applications on behalf of Pan Orient have been approved by the GOI and management has no reason to believe that future requests will not be granted approval however there is no guarantee. Upon default of a commitment related to any of the first three years of a PSC the operator is required to relinquish 15% of the original PSC area, the actual acreage at the discretion of the operator. To date, Pan Orient has complied with all relinquishments as required. Depending on the stage of the PSC, failure to fulfill the required commitments may also result in penalty payment equal to the unspent commitments and/or forfeiture of the PSC.

The expenditures as provided in the table above represent the Company's estimated costs in completing the work program requirements. Actual expenditures required to carry out these commitments may be significantly different than the estimates. The Company intends to fund commitments through existing cash surplus and expected cash flows from Thailand operations.

Summary of Quarterly Results	2010			2009			2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>Production (BOPD)</b>	<b>3,448</b>	3,816	3,370	3,648	4,840	6,165	6,982	4,291
<b>Per Unit information (\$/bbl)</b>								
Realized oil price	<b>71.51</b>	72.91	71.87	68.01	60.01	48.12	56.56	109.54
Royalties	<b>(4.41)</b>	(4.68)	(4.46)	(4.31)	(4.31)	(3.82)	(4.55)	(7.11)
Transportation & operating	<b>(8.77)</b>	(8.92)	(9.80)	(8.29)	(6.66)	(4.81)	(4.16)	(4.91)
	<b>58.33</b>	59.31	57.61	55.41	49.04	39.50	47.85	97.52
<b>Financial (\$000's) except as indicated</b>								
Oil revenue	<b>22,436</b>	25,038	22,280	22,824	26,432	26,699	36,329	43,241
Interest revenue	<b>30</b>	36	26	12	109	304	424	209
Net income (loss) attributed to common shareholders	<b>3,948</b>	3,405	6,996	10,617	(5,349)	2,768	10,813	9,058
Per share basic (\$)	<b>0.08</b>	0.07	0.15	0.23	(0.12)	0.06	0.24	0.20
Per share diluted (\$)	<b>0.08</b>	0.07	0.14	0.22	(0.12)	0.06	0.22	0.19
Capital expenditures <sup>(1)</sup>	<b>16,409</b>	20,269	18,960	16,033	14,906	13,596	16,598	13,627
Total assets	<b>261,635</b>	254,964	241,781	227,198	227,898	271,680	259,208	220,521
Shares outstanding (000s)	<b>48,594</b>	47,414	46,313	46,163	46,168	45,568	45,568	45,650

<sup>(1)</sup> Not including acquisition of Indonesian companies and excluding asset retirement obligation

### Quarterly Summary

**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 volumes 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 Pasundun well in the Citarum block and commencement of the seismic program for Citarum. One of the Company's Indonesian subsidiaries obtained operatorship and a 90% working interest in the South CPP PSC which covers the area associated with the former Pamai Taluk joint study agreement. 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%.

**Q1 2009** – Pan Orient continued to benefit from strong production levels and funds flow from operations in Thailand which fully funded drilling operations in Thailand of \$10.8 million and seismic programs in Indonesia of \$2.7 million. Overall corporate funds flow from operations of \$15.2 million funded capital expenditures of \$13.6 million and increased working capital and deposits by \$1.3 million. Thailand oil production averaged 6,165 barrels per day and generated funds flow from Thailand operations of \$15.8 million. Thailand funds flow from operations of \$28.54/bbl was comprised of oil revenue of \$48.12/bbl, less transportation and operating expenses of \$4.81/bbl, less G&A and other items of \$1.62/bbl and amount to the Thai government of \$13.15/bbl for government royalties, SRB and income tax. During the first quarter of 2009, Pan Orient drilled 7 (net 4.2) wells in concession L44 with a success rate of 71%.

**Q2 2009** – Pan Orient had overall corporate funds flow from operations for the quarter of \$16.6 million and capital expenditures of \$14.9 million (with drilling operations in Thailand of \$12.4 million and seismic programs in Indonesia of \$2.4 million). There was a net loss for the quarter of \$5.5 million as a result of an \$11.1 million foreign exchange loss resulting from the strength in the Canadian dollar compared to the Thai baht and US dollar. Thailand oil production averaged 4,840 barrels per day and generated funds flow from Thailand operations of \$17.4 million. Average production in the second quarter of 2009 of 4,840 BOPD was 1,325 bbl/d, or 21%, lower than the first quarter of 2009 as production additions were less than the production decline from previously drilled wells. Thailand funds flow from operations of \$39.60/bbl was comprised of oil revenue of \$60.01/bbl, less transportation and operating expenses of \$6.66/bbl, less G&A and other items of \$0.09/bbl and amount to the Thai government of \$13.65/bbl for government royalties, SRB and income tax. During the second quarter of 2009, Pan Orient drilled 8 (net 4.8) wells in concession L44. At June 30, 2009, the Company had working capital plus deposits of \$42.0 million and no long-term debt.

**Q3 2009** – Funds flow from operations was \$11.2 million and net income was \$10.6 million for the quarter. The operating results for Pan Orient in the third quarter of 2009 compared to the previous quarter reflect higher crude oil prices, lower production volumes, and a \$3.9 million foreign exchange gain upon reclassification of accumulated other comprehensive income related to the Company's investment in Thailand. Third quarter production volumes of 3,648 BOPD were 1,192 BOPD less than the 4,840 BOPD reported in the second quarter of 2009. Thailand funds flow from operations was \$11.2 million or \$33.34/bbl. During the quarter the Company drilled 3 (1.8 net) wells; two of which were successful and one of which is currently being tested. During the period, independent resource estimates were made for the 2009 discoveries at the Bo Rang "A" and "B" structures, L44W and NSE-F1 in L44. The results of this evaluation were an additional 16.9 MMbbl (net) of 2C contingent resource volumes for the Bo Rang "A" and "B" and L44W structures and 6.1 MMbbl (net) of best case prospective resource volumes for NSE-F1. The contingent resource estimates are contingent upon approval from the Government of Thailand of the Company's production license application. At September 30, 2009, working capital plus deposits was \$39.8 million and the Company had no long-term debt.

**Q4 2009** – Funds flow from operations for the fourth quarter was \$9.9 million compared with \$11.2 million for the third quarter of 2009 and \$25.0 million for the fourth quarter of 2008. Net income was \$7.0 million for the quarter versus \$10.6 million in the third quarter of 2009. There was a \$1.3 million decrease in funds flow from operations compared with the third quarter of 2009. In the fourth quarter of 2009, the Company recorded a \$0.7 million realized foreign exchange loss as a result of the strengthening Canadian dollar and the movement of funds from the Thailand operations to Canada. The financial results for Pan Orient in the fourth quarter of 2009 compared to the third quarter of 2009 reflect an 8% decrease in oil production offset by a 6% increase in realized crude oil prices, and foreign exchange losses due to the strengthening Canadian dollar. Thailand oil sales for the fourth quarter of 2009 was 3,370 BOPD compared with 3,648 BOPD for the third quarter of 2009. In the fourth quarter of 2009, Pan Orient continued its active drilling program in Thailand with four wells (2.4 net) in Concession L44 and two exploration wells (2.0 net) in the 100% owned Concession L53. For the fourth quarter of 2009, Thailand generated \$11.1 million in funds flow from operations, compared with \$11.2 million for the third quarter of 2009 primarily as a result of the 8% decrease in oil sales volumes offset by a 6% increase in the realized price for crude oil. For the quarter, transportation expenses were \$2.45/bbl, operating expenses \$7.35/bbl, general and administrative expenses \$2.37/bbl and amounts to the Thailand government of \$23.94/bbl resulted in after tax funds flow from operations of \$35.69/bbl. Operating expenses increased to \$2.3 million or \$7.35/bbl in the fourth quarter from \$2.0 million or \$5.95/bbl in the third quarter of 2009 as a result of lower production levels and additional expenses for maintenance and water hauling. At December 31, 2009, working capital plus deposits was \$32.7 million and the Company had no long-term debt.

**Q1 2010** – Funds flow from operations for the first quarter was \$12.3 million compared with \$9.9 million for the fourth quarter of 2009 and \$15.2 million for the first quarter of 2009. Net income attributable to common shareholders was \$3.4 million for the quarter versus \$7.0 million in the fourth quarter of 2009. The decrease in net income attributable to common shareholders is the result of future income tax expense of \$4.9 million in Q1 2010 versus a future income tax recovery of \$0.7 million in Q4 2009. There was a \$2.4 million increase in funds flow from operations compared with the fourth quarter of 2009. The financial



results for Pan Orient in the first quarter of 2010 compared to the fourth quarter of 2009 reflect a 13% increase in oil production and a 1% increase in realized crude oil prices. Thailand oil sales for the first quarter of 2010 were 3,816 BOPD compared with 3,370 BOPD for the fourth quarter of 2009. In the first quarter of 2010 Pan Orient drilled two development wells and three exploration / appraisal wells in Concession L44. The five wells drilled (3.0 net) resulted in two new producing horizontal wells at Bo Rang "B" and one new Na Sanun East producing well at NSE-E3. For the first quarter of 2010, Thailand generated \$12.4 million in funds flow from operations, compared with \$11.1 million for the fourth quarter of 2009 primarily as a result of the 13% increase in oil sales volumes. For the quarter, transportation expenses were \$2.52/bbl, operating expenses \$6.40/bbl, general and administrative expenses \$3.70/bbl and amounts to the Thailand government of \$24.31/bbl resulted in after tax funds flow from operations of \$36.01/bbl. Operating expenses decreased to \$2.2 million or \$6.40/bbl in the first quarter from \$2.3 million or \$7.35/bbl in the fourth quarter of 2009 as a result of higher production levels. General and administrative expenses increased to \$1.3 million or \$3.70/bbl in the first quarter from \$0.7 million or \$2.37/bbl in the fourth quarter of 2009 primarily as a result of severance payments. At March 31, 2010, working capital plus deposits was \$25.4 million and the Company had no long-term debt.

**Q2 2010** – Funds flow from operations for the second quarter was \$13.5 million compared with \$12.3 million for the first quarter of 2010 and \$16.6 million for the second quarter of 2009. Net income attributable to common shareholders was \$3.9 million for the quarter versus \$3.4 million in the first quarter of 2010. The financial results for Pan Orient in the second quarter of 2010 compared to the first quarter of 2010 reflect a 9% decrease in oil production and a 2% decrease in realized crude oil prices. Thailand oil sales for the second quarter of 2010 were 3,448 BOPD compared with 3,816 BOPD for the first quarter of 2010. For the second quarter of 2010, Thailand generated \$12.8 million in funds flow from operations, compared with \$12.4 million for the first quarter of 2010; the increase was the result of the 10% reduction in oil sales volume being more than offset by a significant reduction in Special Remuneratory Benefit and income tax expenses resulting from the high level of reinvestment into Concession L44 and minimal reinvestment in Concession L53. For the quarter, transportation expenses were \$2.56/bbl, operating expenses \$6.21/bbl, general and administrative expenses \$3.69/bbl and amounts to the Thailand government of \$18.38/bbl resulted in after tax funds flow from operations of \$40.66/bbl. Operating expenses decreased to \$1.9 million or \$6.21/bbl in the second quarter from \$2.2 million or \$6.40/bbl in the first quarter of 2010. Pan Orient drilled seven wells (4.2 net wells) in Thailand during the second quarter of 2010 with three appraisal wells at Bo Rang "B", three appraisal wells at the NSE-F1 field to further define fields discovered in 2009, and one NSE development well. The seven wells drilled (4.2 net) resulted in two new producing wells at Bo Rang B, one new producing well at Na Sanun East (NSE-B3), and one new producing well in the NSE-F1 field (NSE-F2). At June 30, 2010, working capital plus deposits was \$24 million and the Company had no long-term debt.

## **Accounting Standards**

### ***Changes in Accounting Policies***

On January 1, 2010, Pan Orient adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

"Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business combinations entered into after January 1, 2010.

"Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on Pan Orient's consolidated financial statements.

"Non-controlling Interests", Section 1602, establishes accounting and reporting standards for the non-controlling (minority) interest in a subsidiary as well as the accounting for (i) a parent's loss of control (deconsolidation) of a subsidiary and (ii) changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. Section 1602 clarifies that a non-controlling interest in a subsidiary is an ownership interest in a consolidated entity that should be reported as equity in the consolidated financial statements. This Section also changes the way the consolidated statements of income (loss) and comprehensive income (loss) are presented by requiring consolidated net income (loss) and comprehensive income (loss) to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. Section 1602 required retrospective adoption of the presentation and disclosure requirements for non-controlling interests. All other requirements of Section 1602 have been applied prospectively.

The above CICA Handbook sections are converged with International Financial Reporting Standards ("IFRS"). Pan Orient will be required to report its results in accordance with IFRS beginning January 1, 2011.

## ***International Financial Reporting Standards (“IFRS”)***

In February 2008, the CICA's Accounting Standards Board confirmed that IFRS will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. Therefore, Pan Orient will be required to report its results in accordance with IFRS beginning in 2011. The Company has assembled a team and developed a plan to complete the transition to IFRS by January 1, 2011, including the preparation of 2010 required comparative information.

The Company is assessing the potential impacts of this changeover and has developed its implementation plan accordingly. The quantitative impact on the Company's future financial position and results of operations is not reasonably determinable at this point in time, however, the Company expects the highest impact will be in the following areas:

### ***Property, Plant and Equipment***

Under Canadian GAAP, Pan Orient follows the CICA's guideline on full cost accounting in which all costs directly associated with the acquisition of, the exploration for, and the development of natural gas and crude oil reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre are depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs.

Under IFRS exploration and evaluation costs (E&E) are those expenditures for an area or project for which technical feasibility and commercial viability have not yet been determined. Under IFRS, Pan Orient will initially capitalize these costs as E&E assets on the balance sheet. When the area or project is determined to be technically feasible and commercially viable, the costs will be transferred to PP&E. Unrecoverable exploration and evaluation costs associated with an area or project will be expensed. Upon transition costs associated with the following areas are anticipated to be classified as E&E assets:

- Undeveloped portion of L44/43;
- L33/43;
- L53/48;
- Citarum;
- Batu Gajah;
- South CPP; and
- Sawn Lake.

Development costs include those expenditures for areas or projects where technical feasibility and commercial viability have been determined. Pan Orient expects Concession SW1A and the developed portion of part of Concession L44/43 to be classified as development costs on the transition date. Under IFRS, Pan Orient expects to continue to capitalize these costs within PP&E on the balance sheet and the costs will be depleted on a unit-of-production basis over an area level instead of the country cost centre level. Pan Orient has determined the areas or the inputs to be utilized in the unit-of-production depletion calculation and finalization of this information is dependent upon review by the Company's external auditors.

Under IFRS, divestitures will generally result in a gain or loss recognized in net earnings. Under Canadian GAAP, proceeds of divestitures are normally deducted from the full cost pool without recognition of a gain or loss unless the deduction would result in a change to the depletion rate of 20 percent or greater, in which case a gain or loss is recorded.

Pan Orient expects to adopt the IFRS 1 exemption, which allows the Company to deem its January 1, 2010 IFRS PP&E costs to be equal to its Canadian GAAP historical net book value. On January 1, 2010, the IFRS exploration and evaluation costs will be equal to the Canadian GAAP unproved properties balance and the IFRS development costs will be equal to the full cost pool balance. Pan Orient has reclassified its petroleum and natural gas assets accordingly and finalization of the amounts is pending review by the Company's external auditors.

### ***Asset Retirement Obligation (“ARO”)***

Under Canadian GAAP, ARO is initially measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. The ARO liability is not re-measured using current discount rates. Under IFRS, ARO will be measured as the best estimate of the expenditure to be incurred and discounted at the risk-free rate. The change in ARO that results from changes in the discount rates will be added to or deducted from petroleum & natural gas properties.

The Company revalue its ARO at January 1, 2010 and the difference will be recorded in retained earnings.

### ***Impairment***

Under Canadian GAAP, Pan Orient may be required to recognize an impairment loss if the carrying amount exceeds the undiscounted cash flows from proved reserves for the country cost centre. If an impairment loss is to be recognized, it is then measured at the amount the carrying value exceeds the sum of the fair value of the proved and probable reserves and the costs of unproved properties.

Under IFRS, Pan Orient is required to recognize and measure an impairment loss if the carrying value exceeds the recoverable amount for a cash-generating unit (“CGU”). Under IFRS, the recoverable amount is the higher of fair value less

cost to sell and value in use. Impairment losses, other than goodwill, are reversed under IFRS when there is an increase in the recoverable amount. Pan Orient has grouped its assets into cash-generating units (generally by concession) based on the independence of cash inflows from other assets or other groups of assets.

#### *Income Taxes*

In transitioning to IFRS, the Company's future tax liability will be impacted by the tax effects resulting from the IFRS changes discussed above. Pan Orient continues to assess the impact that the IFRS income tax principles may have on the Company.

#### *Other IFRS 1 Considerations*

As permitted by IFRS 1, Pan Orient's foreign currency translation adjustment, currently the only balance in Pan Orient's Accumulated Other Comprehensive Income, will be deemed to be zero and the balance will be reclassified to retained earnings on January 1, 2010. Accordingly, retrospective restatement of foreign currency translation adjustments under IFRS principles will not be performed.

The financial statements for March 31, 2011 will contain all IFRS accounting policies and disclosures, as well as reconciliations outlining the adjustments made from Canadian GAAP to IFRS on date of transition.

The key remaining elements of Pan Orient's transition plan are as follows:

1. Collection of the financial information necessary to compile IFRS compliant financial statements and related disclosures.
2. External audit and review procedures on IFRS compliant financial statements and related disclosures.
3. Detailed assessment of impact of IFRS on existing accounting policies, data systems and business processes. This phase includes identification of key processes that will be impacted by the adoption of IFRS.
4. Implementation of processes. This phase includes the implementation of changes to business processes which are impacted by the transition to IFRS as well as formal approval of recommended accounting policy changes and training of staff.

The IFRS transition team reports quarterly to the Audit Committee of Pan Orient. The Company will continue to update its IFRS transition plan as required.

#### **Additional Information**

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com)