



PAN ORIENT ENERGY CORP.

2008 MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is prepared effective August 27, 2008, and should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the six months ended June 30, 2008 and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2007. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP).

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

FORWARD-LOOKING STATEMENTS

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

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

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

The forward-looking statements contained herein are as of August 27, 2008 and are subject to change after this date. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive and as such undue reliance should not be placed on forward-looking statements. Except as required by applicable securities laws, with the exception of events or circumstances that occurred during the period to which the MD&A relates that are reasonably likely to cause actual results to differ materially from material forward-looking information for a period that is not yet complete that was previously disclosed to the public, the Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

NON-GAAP MEASURES

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

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

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Cash flow from operating activities	25,401	(204)	54,443	(326)
Changes in non-cash working capital	(14,454)	1,217	(32,883)	1,782
Funds flow from operations	10,947	1,013	21,560	1,456

Operating netback is calculated as average unit sales price less royalties, transportation costs and operating expenses. Corporate netback includes interest revenue and further deducts administrative expenses and current taxes. These measures represent the cash margin for every barrel of oil equivalent sold and are a common benchmark used in the oil and gas industry. There is no GAAP measure that is reasonably comparable to netbacks. The calculation of operating netbacks is presented in "Production and Netbacks".

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

PETROLEUM AND NATURAL GAS PROPERTIES

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

Thailand

The Company has interests in four concessions in Thailand; License SW1A (SW1A), License 44/43 (L44/43), License 33/43 (L33/43) and License 53/48 (L53/48). Pan Orient is the operator for all four concessions with a 60% working interest in the first three and a 100% working interest in the fourth. Currently all of the Company's production is crude oil and is sold to a refinery owned by the Thai National Oil Company. Proved plus probable reserves at December 31, 2007, as evaluated by independent reserve engineers, were 17.0 MMbbl net to Pan Orient.

The Company anticipates eventual full development of its Thailand properties and is currently focused on a minimum 32-well drilling program in the Na Sanun East and Wichian Buri fields located in SW1A and L44/43, in addition to a number of exploration drilling locations. The remaining concessions are largely undeveloped at this time.

Canada

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

The property is in the pre-production stage and Andora is currently waiting approval from the Energy Resources Conservation Board (Alberta) to build and operate a 2,000 bbl per day steam assisted gravity drainage (SAGD) demonstration plant on the property. Subsequent to approval, a 2-well pilot project is anticipated to commence mid 2009.

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

Indonesia

In the second quarter of 2008 the Company acquired interests in two production sharing contracts (PSC) in Indonesia. The Company owns a 90% working interest in the Batu Gajah PSC located onshore south Sumatra and a 69% operated working interest in the Citarum PSC located onshore West Java. In addition to the working interests in Citarum and Batu Gajah PSCs, Pan Orient also acquired certain rights to other interests in exploration lands within the Republic of Indonesia that may or may not be exercised at a future date.

Selected Quarterly Information

	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>(\$000s unless indicated)</i>								
Revenues								
Oil - Thailand	35,486	32,498	15,435	4,214	2,812	1,573	431	264
Royalties - Thailand	(2,349)	(2,254)	(931)	(242)	(265)	(119)	(52)	(37)
Interest - Canada	93	265	234	118	98	125	206	207
	<u>33,230</u>	<u>30,509</u>	<u>14,738</u>	<u>4,090</u>	<u>2,645</u>	<u>1,579</u>	<u>585</u>	<u>434</u>
Expenses								
Stock based compensation	446	296	1,487	235	237	642	518	254
General and administrative	1,378	885	1,086	764	764	550	711	391
Foreign expenditures	-	-	-	-	-	40	126	-
DD & A	2,955	3,086	1,185	1,566	1,164	790	444	135
Operating & transportation	2,066	1,686	1,065	411	866	546	535	65
Non-controlling interest	(149)	12	457	(23)	4	(128)	(29)	-
Foreign exchange loss (gain)	696	(205)	(473)	1,079	807	(88)	(201)	(20)
Current income tax	8,262	6,360	4,646	-	-	-	-	-
SRB	9,601	11,335	-	-	-	-	-	-
Future income tax increase (reduction)	(483)	3,631	(1,414)	(28)	40	(70)	(1,072)	-
	<u>24,772</u>	<u>27,086</u>	<u>8,039</u>	<u>4,004</u>	<u>3,882</u>	<u>2,282</u>	<u>1,032</u>	<u>825</u>
Net income (loss)	8,458	3,423	6,699	86	(1,239)	(703)	(447)	(391)
Income (loss) per share - basic	0.19	0.08	0.15	0.00	(0.03)	(0.02)	(0.01)	(0.01)
Income (loss) per share - diluted	0.17	0.07	0.14	0.00	(0.03)	(0.02)	(0.01)	(0.01)
Average quarterly production,								
net to Pan Orient (bbl/d)	3,894	4,604	2,320	722	501	344	118	50
Capital expenditures								
	6,686	3,581	6,524	9,035	5,277	1,390	4,250	2,312
Funds flow from operations ⁽¹⁾	10,947	10,612	7,942	2,455	1,014	442	(786)	(22)
Shares outstanding (000s)	45,770	45,247	45,218	41,635	40,135	40,057	40,057	40,057

⁽¹⁾ Refer to "Non-GAAP Measures" for calculation

QUARTERLY SUMMARY

Q3 2006 - In Thailand the Company commenced a 7-well drilling program in the Wichian Buri field on L44/43. Pan Orient transferred 10% working interest in the oil sands leases in the Sawm Lake area of Alberta to Andora for consideration of 10 million Andora common shares and also acquired 24.0 million Andora shares through various transactions to increase its ownership to 67% of Andora's outstanding shares.

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

Q1 2007 – Production testing in Wichian Buri continued and an eighth well added to the drilling program discovered four potential fractured volcanic reservoir zones at Na Sanun. The Company acquired its 100% operated interest in L53/48. Andora Energy purchased a gross overriding royalty of 3% on 36.5 sections of Sawm Lake oil sand leases.

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

Q3 2007 – Two wells from the Na Sanun East drilling program came on production at a combined stabilized rate of approximately 1,700 bbl/d. Pan Orient raised \$6.4 million through the issuance of 1.5 million common shares at a price of \$4.25 per share. The net proceeds from the offering were used to accelerate the 3-D seismic acquisition for L53/48. Andora Energy purchased Signet Energy, diluting Pan Orient's ownership interest in Andora to 53.5%.

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

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

Q2 2008 – The Company acquired an operated 90% interest in the Batu Gajah PSC, and a 69% operated interest in the Citarum PSC, onshore Indonesia. In accordance with this acquisition Pan Orient issued 378,324 common shares to the vendor of these properties. Also during the quarter Pan Orient received its environmental approvals from the Thai government for 32 drilling locations.

PRODUCTION AND NETBACKS

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Oil revenue (\$000s)	35,486	2,812	67,984	4,384
Average daily production (bbls/d)	3,894	501	4,249	423
Operating and corporate netback (\$)				
Realized oil price	100.13	61.67	87.91	57.39
Royalties	(6.63)	(5.81)	(5.95)	(5.02)
Operating expenses	(3.16)	(16.47)	(2.31)	(15.97)
Transportation expenses	(2.67)	(2.54)	(2.54)	(2.51)
TOTAL OPERATING NETBACK	87.67	36.85	77.11	33.89
Interest income	0.26	2.15	0.46	2.91
General & administrative expenses	(3.89)	(16.78)	(2.93)	(17.18)
Special remuneratory benefit	(27.09)	-	(27.07)	-
Income tax	(23.31)	-	(18.91)	-
TOTAL CORPORATE NETBACK	33.64	22.22	28.66	19.62

Revenue for second quarter of 2008 was over 12 times that recorded for respective period in 2007 and over 15 times for the six months ended June 30, 2008 compared to the six months ended June 30, 2007. The majority of the variance was attributable to production growth but was also positively impacted by the considerable rise in oil prices.

The Company's successful drilling program in Na Sanun East contributed to the 677% increase in daily average production from the quarter ended June 30, 2007 to 2008. Average daily production for the current quarter declined by 18% compared to the three months ended March 31, 2008 due to natural declines of wells drilled mainly in the structurally low areas of the field where environmental approvals which are now received, were previously delayed and the Company was unable to drill optimum development locations. With the addition of two significant wells subsequent to the end of June 30, 2008, current production is approximately 6,000 bbl/d net to Pan Orient. Future production volumes will be determined by drilling success, the time required to place new wells on production, individual well performance, SRB rates and access to refining facilities.

As the Company's production profile is entirely oil, Pan Orient's revenues are dependent upon the global factors currently affecting petroleum prices. The steady rise in crude prices over the past 18 months reflects increasing demand for petroleum and supply uncertainties driven primarily by rapid industrialization efforts of certain populous Asian economies. Geopolitical tension and uncertainties have further exacerbated this demand although there are offsetting demand decline factors such as the downturn in the U.S. economy and the general decline in the rate of oil growth demand. The Company's oil production is sold at daily spot prices and the Company's realized price, less a discount for the high paraffin nature of the oil, is historically approximately 85% of WTI. The Company's realized oil price was \$100.13/bbl for the second quarter of 2008 compared to \$61.67/bbl for the second quarter of 2007, an increase of 62%. Prices received for future production will be determined by overall commodity market conditions.

ROYALTIES

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Royalties - \$000s	2,349	265	4,603	384
Royalties - \$/bbl	6.63	5.81	5.95	5.02
Royalties - % of revenue	6.6	9.4	6.8	8.8

As a result of production additions through the past year total royalties increased significantly from 2007 to 2008, for both the three and six months periods ended June 30. Royalties per barrel also increased over the year but royalties as a percentage of revenue were less in 2008 than 2007.

The Company pays two types of royalties: 1) to the Thai government on all production volumes; and 2) a 10% gross overriding royalty (GORR) on a portion of production from the Wichian Buri oil field. The GORR is applicable to approximately 5% of the Company's total production. Substantially all of the production growth in the past year came from outside the Wichian Buri field, therefore the GORR no longer has a significant impact on the Company's royalty rate. The royalty rate paid to the Thai government is based on a sliding scale, ranging from 5% on production of less than 2,000 bbl/d to 15% on production in excess of 20,000 bbl/d per concession. Gross production from the Company's properties was 6,491 bbl/d for the second quarter of 2008 which yielded a royalty rate of 6.6%. Future royalty rates will be primarily determined by the Company's production levels.

PRODUCTION EXPENSES

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
(\$000s)				
Operating expenses	1,121	751	1,789	1,220
Transportation expenses	945	116	1,963	192
Total production expenses	2,066	867	3,752	1,412
(\$/bbl)				
Operating expenses	3.16	16.47	2.31	15.97
Transportation expenses	2.67	2.54	2.54	2.51
Total production expenses	5.83	19.01	4.85	18.48

Total production expenses for the three and six months periods ended June 30, 2008 were significantly higher than the respective periods of 2007 due to the growth in the Company's operations. However, in relation to the comparable periods of 2007, the costs per barrel were 70% lower for the three months ended June 30, 2008 and 74% lower for the six months ended June 30, 2008.

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

Transportation expenses represent the costs to truck the Company's oil production to the refinery in Bangkok. Management expects future transportation costs on a per barrel basis to remain relatively consistent.

DEPLETION, DEPRECIATION AND ACCRETION (DD&A)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Depletion, depreciation and accretion – \$000s	2,955	1,164	6,042	1,954
Depletion, depreciation and accretion – \$/bbl	8.34	25.81	7.81	25.58

DD&A expense for the three and six months ended June 30, 2008 of \$3.0 million and \$6.0 million respectively, consists primarily of depletion of Pan Orient's Thai capital base. As the Company's Canadian and Indonesian assets are in the pre-production phase, depletion is not calculated for these cost centres. The increase in depletion expense reflects the Company's increasing production and capital base and the per unit decrease is the result of reserve growth from the Na Sanun and Na Sanun East oil fields, recognized in the 2007 year end reserve report.

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

FOREIGN EXCHANGE

The Company holds Thai Baht and US dollar currency and working capital and as a result, records a foreign exchange gain or loss each period. In accordance with GAAP, exchange gains or losses are included in earnings or other comprehensive income. Gains and losses are primarily determined by the fluctuation in the value of the Canadian dollar relative to the Thai Baht and US dollar.

The Company recorded a foreign exchange loss of \$0.5 million in 2008 compared to a loss of \$0.7 million for the same period in 2007. The loss is the result of the US dollar depreciating against the Canadian dollar.

Comprehensive income for the six months ended June 30, 2008 includes an unrealized gain of \$2.5 million recorded on the translation of assets and liabilities of the Company's self sustaining Thai operations, which are denominated in Thai Baht.

INCOME TAXES

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
(\$000s)				
Current tax	8,262	-	14,622	-
Special remuneratory benefit (SRB)	9,601	-	20,936	-
Total current tax	17,863	-	35,558	-
Future tax (reduction) expense	(483)	40	3,148	(30)
Total tax expense	17,380	40	38,706	(30)

The Company is required to pay both income tax and SRB on its Thailand operations in 2008 and beyond. The income tax rate is 50% and allows deductions for expenses, capital expenditures and SRB, and the SRB is a tax on “windfall profits” at sliding scale rates (0-75% by concession). The SRB is a highly detailed calculation, performed on a concession-by-concession basis. The Company currently has four Thai concessions. The basis of the calculation is petroleum profits, adjusted for capital spent, being subjected to a sliding scale SRB rate, such that profits are not taxed until all capital has been recovered. The sliding scale rate is principally driven by production and pricing but is subject to other adjustments such as changes in Thailand’s consumer price index, wholesale price index, cumulative meters drilled on the concession and for certain concessions, changes in the exchange rate between the baht and the USD.

As the SRB calculation is performed and paid annually for each concession, at the calculated annual rate at the end of the year, quarterly estimates of what the expected rate may be are subject to management estimates. Included in the SRB calculation for the first half of 2008 are estimated 2008 annual SRB rates of 49% for concession L44/43 (which contributed 90% of 2008 first half production) and 0% for concession SW1A (which contributed 10% of 2008 first half production). Currently, after recent successful drilling bringing the Company’s net production up to approximately 6,000 bbl/d (from 3,894 bbl/d in the second quarter), SW1A continues to produce approximately 11 % of the Company’s total production, and would still be subject to a 0% SRB rate.

The SRB is fully deductible in the calculation of current income taxes and thus has a net effective rate of 50% of its calculated rate.

A future tax reduction of \$0.5 million was recorded for the quarter and an expense of \$3.1 million for the six months ended June 30, 2008.

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

GENERAL AND ADMINISTRATIVE (G & A) EXPENSES

G&A expenses totaled \$1.4 million (\$3.89/bbl) for the quarter ended June 30, 2008 and \$2.3 million (\$2.93/bbl) year-to-date. In 2007 G&A expenses were \$0.8 million (\$16.78/bbl) for the second quarter and \$1.3 million (\$17.18/bbl) for the six months ended June 30. Increased levels of drilling and production activities over the year necessitated the hiring of additional Thai staff which resulted in higher compensatory and other administrative costs. The Company does not anticipate any significant G&A increases based on existing Thai concessions, as management feels it is adequately staffed for planned growth. In Indonesia, staffing may add incremental G&A expenses to future quarters.

STOCK-BASED COMPENSATION

Stock based compensation expense represents the portion of the aggregate fair value of stock options applicable to the reporting period. The actual expense is primarily determined by the number of options outstanding as well as the calculated fair value of those instruments and the vesting period. As required under Canadian GAAP, the Company uses the fair value method to account for its stock based compensation. Stock-based compensation for the second quarter of 2008 was \$0.4 million compared to \$0.2 million for the same period in 2007. Year-to-date, the expense totaled \$0.7 million in 2008 compared to \$0.9 in 2007. The expense for first three months of 2007 included \$0.3 million related to stock options granted in Andora.

LIQUIDITY

At June 30, 2008, Pan Orient's consolidated accounts included approximately \$33.9 million of working capital, including \$63.4 million of cash. The Company's Thailand activities are now self funding and generate excess cash at current operating levels. During the first half of 2008, funds flow from operations of \$21.6 million exceeded the Company's \$10.3 million investment into petroleum and natural gas properties. Existing working capital and cash flows are available for:

- continued drilling onshore Thailand on its 60 percent owned concessions utilizing 2 drilling 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 Thailand, Indonesia and China.
- fourth quarter 2008 seismic programs and 2009 drilling on Pan Orient's newly acquired Indonesia properties.

In addition to the \$33.9 million of consolidated working capital, the Company has \$2.4 million of other cash deposits including \$0.8 million relating to L53/48 the concession, located onshore Thailand, and \$1.6 million of customs deposits. Also, the Company holds inventory, included in capital assets, of approximately \$2.3 million in casing and pumps at the end of June 2008 to be used in conjunction with the current drilling program.

CAPITAL

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

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

<u>Outstanding at period-end</u>	August 27 2008	June 30 2008
Common shares	45,769,766	45,769,766
Common shares issuable on conversion of stock options	4,476,500	4,476,500
Total	50,246,266	50,246,266

COMMITMENTS AND CONTINGENCIES

The Company has entered into agreements to lease premises in both Canada and Thailand, requiring future minimum payments totaling \$0.8 million. Minimum annual payments during the next five fiscal years are as follows:

<u>(\$000s)</u>	
2008	119
2009	189
2010	143
2011	143
2012	146
Total	740

The concession agreement for L53/48 includes a minimum three year first exploration phase commitment of \$1.9 million USD. At June 30, 2008, \$0.8 million USD has yet to be expended.

Pursuant to the terms of the Batu Gajah PSC in Indonesia, the Company is required to complete 500 kilometers of 2D seismic, 400 square kilometers of 3D seismic and drill 3 wells with estimated expenditures of \$29.8 million USD, to be completed by January 2010. At June 30, 2008, none of the proposed work program has been completed. Upon completion of the work program, Pan Orient has the option to continue on a year by year renewal basis for up to an additional 7 years, upon which time additional commitments will be required.

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

CHANGE IN ACCOUNTING POLICIES

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

ACCOUNTING STANDARD CHANGES

Capital Disclosures

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

Financial Instruments Disclosure and Presentation

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

International Financial Reporting Standards

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

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

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

ADDITIONAL INFORMATION

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



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