PAN ORIENT ENERGY CORP.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011
(Unaudited)

Pan Orient Energy Corp.
Condensed Consolidated Statements of Financial Position
(Unaudited)

($000s)	June 30, 2011	December 31, 2010
Assets		
Current		
Cash and cash equivalents	**59,248**	37,061
Accounts receivable	**11,575**	14,166
	70,823	51,227
Deposits	**3,783**	4,628
Petroleum and equipment (note 6)	**135,411**	118,387
Exploration and evaluation costs (note 7)	**139,580**	122,467
	349,597	296,709
Liabilities		
Current		
Accounts payable and accrued liabilities	**12,472**	11,950
Taxes payable (note 10)	**1,665**	12,509
	14,137	24,459
Deferred tax liabilities (note 10)	**63,178**	54,282
Decommissioning provision (note 8)	**8,786**	7,390
	86,101	86,131
Shareholders' equity (note 9)		
Share capital	**159,356**	110,576
Contributed surplus	**14,590**	13,569
Non-controlling interest	**21,232**	18,227
Accumulated other comprehensive (loss) income	**(5,509)**	2,915
Retained earnings	**73,827**	65,291
	263,496	210,578
Related parties transaction (note 12)		
Commitments (note 14)		
	349,597	296,709

See accompanying notes to the consolidated financial statements.

Pan Orient Energy Corp.
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
($000s, except per share amounts)	**2011**	**2010**	**2011**	**2010**
Revenue				
Oil	**18,521**	22,436	**36,970**	47,474
Royalties	**(967)**	(1,384)	**(1,968)**	(2,994)
Interest	**180**	30	**218**	66
	17,734	21,082	**35,220**	44,546
Expenses				
Transportation	**407**	802	**876**	1,666
Production and operating	**2,397**	1,949	**4,534**	4,147
General and administrative	**998**	627	**2,413**	1,974
Depletion and depreciation	**1,949**	1,831	**3,811**	3,763
Stock-based compensation	**555**	4,033	**1,716**	4,286
Foreign exchange loss (gain)	**77**	(68)	**259**	103
Foreign new venture expenditures	**59**	531	**59**	531
	6,442	9,705	**13,668**	16,470
Income before taxes and non-controlling interest	**11,292**	11,377	**21,552**	28,076
Taxes (note 10)				
Special remuneratory benefit	**(23)**	737	**-**	2,906
Current income tax	**686**	3,673	**1,671**	8,260
Deferred tax expense	**6,102**	2,993	**11,531**	8,906
	6,765	7,403	**13,202**	20,072
Net income for the period	**4,527**	3,974	**8,350**	8,004
Foreign exchange (loss) gain on translation of foreign operations	**(2,300)**	6,057	(8,424)	4,931
Comprehensive income (loss) for the period	**2,227**	10,031	**(74)**	12,935
Net income attributable to:				
Common shareholders	**4,608**	4,216	**8,536**	8,286
Non-controlling interest	**(81)**	(242)	**(186)**	(282)
Net income for the period	**4,527**	3,974	**8,350**	8,004
Comprehensive income for the period attributable to:				
Common shareholders	**2,308**	10,273	**112**	13,217
Non-controlling interest	**(81)**	(242)	**(186)**	(282)
Comprehensive income (loss) for the period	**2,227**	10,031	**(74)**	12,935
Net income per share attributable to common shareholders (note 9)				
Basic	**$0.08**	$0.09	**$ 0.16**	$ 0.17
Diluted	**$0.08**	$0.09	**$ 0.16**	$ 0.17

See accompanying notes to the consolidated financial statements.

Pan Orient Energy Corp.
Condensed Interim Consolidated Statement of Changes in Equity
(Unaudited)

($000s)	Common Shares	Contributed Surplus	Retained Earnings	AOCI	NCI	Total
Balance as at January 1, 2010	104,846	8,574	41,767	-	18,705	173,892
Net income	-	-	8,286	-	(282)	8,004
Stock-based compensation	-	4,286	-	-	-	4,286
Capitalized stock-based compensation expense	-	194	-	-	-	194
Options exercised	3,246	-	-	-	-	3,246
Transfer from contributed surplus	1,833	(1,833)	-	-	-	-
Increase in Andora interest	-	(150)	-	-	-	(150)
Transactions effecting non-controlling interest	-	-	-	-	(378)	(378)
Other comprehensive loss	-	-	-	4,931	-	4,931
Balance as at June 30, 2010	109,925	11,071	50,053	4,931	18,045	194,025
Balance as at December 31, 2010	110,576	13,569	65,291	2,915	18,227	210,578
Net income	-	-	8,536	-	(186)	8,350
Stock-based compensation	-	1,716	-	-	-	1,716
Capitalized stock-based compensation expense	-	125	-	-	-	125
Share issued for private placement	49,501	-	-	-	-	49,501
Shares issued for Indonesia acquisition	344	-	-	-	-	344
Share issue costs	(2,971)	-	-	-	-	(2,971)
Options exercised	1,086	-	-	-	-	1,086
Transfer from contributed surplus	820	(820)	-	-	-	-
Transactions effecting non-controlling interest	-	-	-	-	3,191	3,191
Other comprehensive loss	-	-	-	(8,424)	-	(8,424)
Balance as at June 30, 2011	159,356	14,590	73,827	(5,509)	21,232	263,496

Pan Orient Energy Corp.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

($000s)	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Cash Provided By (Used in)		
Operating Activities		
Net income	**8,350**	8,004
Items not affecting cash		
Depletion and depreciation	**3,811**	3,763
Accretion	**177**	106
Stock-based compensation	**1,716**	4,286
Taxes	**13,202**	20,072
Non-cash foreign venture expenditures	**59**	474
Unrealized foreign exchange loss	**-**	258
	27,315	36,963
Taxes paid	**(12,478)**	(15,024)
Changes in non-cash working capital	**1,869**	(1,985)
	16,706	19,954
Investing Activities		
Petroleum and natural gas properties	**(42,467)**	(36,678)
Indonesia acquisition (note 5)	**(1,417)**	-
Deposits	**727**	140
Change in non-cash working capital	**2,813**	(1,290)
	(40,344)	(37,828)
Financing Activities		
Issue of common shares	**50,587**	3,247
Share issue costs	**(2,971)**	-
	47,616	3,247
Change in cash and cash equivalents	**23,978**	(14,627)
Effect of foreign exchange on cash balances	**(1,791)**	(490)
Cash and cash equivalents, beginning of period	**37,061**	44,760
Cash and cash equivalents, end of period	**59,248**	29,643

See accompanying notes to the consolidated financial statements.

1) DESCRIPTION OF BUSINESS

Pan Orient Energy Corp. ("Pan Orient" or the "Company"), is an oil and natural gas company based in Calgary, Alberta, which holds properties onshore Thailand and Indonesia as well as interests in a subsidiary with properties in Northern Alberta. The Company is continually pursuing other oil and natural gas exploration opportunities in Asia.

2) SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These interim consolidated financial statements are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The interim financial statements have been prepared following the same accounting policies and methods of computation as the unaudited financial statements of the Company for the period ended March 31, 2011. These interim financial statements and notes thereto should be read in conjunction with the 2010 annual financial statements and note 3 of the unaudited financial statements for the period ended March 31, 2011 which describes the Company's significant accounting policies under IFRS.

These interim consolidated financial statements do not include all of the information required for full annual financial statements. The impact of the new standards, including reconciliations presenting the change from Canadian to IFRS as at June 30, 21010 and for the three and six months ended June 30, 2010, is presented in Note 4.

These financial statements were authorized for issuance by the Board of Directors on August 15, 2011.

3) PENDING ACCOUNTING STANDARDS

Presentation of Financial Statements
In June 2011, the International Accounting Standards Board ("IASB") issued IAS 1, "Presentation of Items of OCI: Amendments to IAS 1 Presentation of Financial Statements." The amendments stipulate the presentation of net earnings and OCI and also require the Company to group items within OCI based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 are effective for the Company beginning on January 1, 2012 with retrospective application and early adoption permitted. The adoption of the amendments to this standard is not expected to have a material impact on the Company's financial statements.

Financial Instruments
In November 2009, the IASB published IFRS 9, "Financial Instruments," which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through profit or loss. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of profit or loss and recognize the change in OCI. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact to the Company upon implementation of the issued standard.

Consolidated Financial Statements
In May 2011, the IASB published IFRS 10, "Consolidated Financial Statements," which is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. IFRS 10 provides a single control model to be applied in the assessment of control for all entities in which the Company has an investment including special purpose entities currently in the scope of Standing Interpretations Committee ("SIC") 12. Under the new control model, the Company has control over an investment if the Company has the ability to direct the activities of the investment, is exposed to the variability of returns from the investment and there is a linkage between the ability to direct activities and the variability of returns. The Company intends to retrospectively adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company is assessing the impact of this standard on its financial statements.

Disclosure of Interests in Other Entities
In May 2011, the IASB published IFRS 12, "Disclosure of Interests in Other Entities," which is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. IFRS 12 contains new disclosure requirements for interests the Company has in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

Required disclosures aim to provide readers of the financial statements with information to evaluate the nature of and risks associated with the Company's interests in other entities and the effects of those interests on the Company's financial statements. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. It is expected that IFRS 12 will increase the current level of disclosure related to the Company's interests in other entities upon adoption. The Company has not completed its evaluation of the effect of adopting this standard on its consolidated financial statements.

4) Presented below are reconciliations of Canadian GAAP to IFRS:

Consolidated Statement of Financial Position at June 30, 2010 (unaudited)

($000s)	**Canadian GAAP June 30, 2010**	Adjust-ments at January 1, 2010	(a)	(b) and (e)	(c) and (e)	(f) and (e)	**IFRS June 30, 2010**
Assets							
Current							
Cash and cash equivalents	29,643	-	-	-	-	-	29,643
Accounts receivable	12,611	-	-	-	-	-	12,611
	42,254	-	-	-	-	-	42,254
Deposits	3,994	-	-	-	-	-	3,994
Petroleum and equipment	215,387	(118,397)	(22,107)	409	(162)	3,284	78,414
Exploration and evaluation costs	-	118,428	22,107	-	-	-	140,535
	261,635	31	-	409	(162)	3,284	265,197
Liabilities							
Current							
Accounts payable and accrued liabilities	10,552	-	-	-	-	-	10,552
Taxes payable	11,667	-	-	-	-	-	11,667
	22,219	-	-	-	-	-	22,219
Deferred tax liabilities	41,923	(1,119)	-	6	(16)	2,083	42,877
Decommissioning provision	3,485	2,193	-	398	-	-	6,076
	67,627	1,074	-	404	(16)	2,083	71,172
Shareholders' equity							
Share capital	109,925	-	-	-	-	-	109,925
Contributed surplus	10,618	300	-	-	153	-	11,071
Non-controlling interest	18,045	-	-	-	-	-	18,045
Accumulated other comprehensive loss	808	4,149	-	-	-	(26)	4,931
Retained earnings	54,612	(5,492)	-	5	(299)	1,227	50,053
	194,008	(1,043)	-	5	(146)	1,201	194,025
	261,635	31	-	409	(162)	3,284	265,197

Consolidated Statement of Operations and Retained Earnings for the Six Month Ended June 30, 2010 (unaudited)

($000s)	**Canadian GAAP Six Months Ended June 30, 2010**	Adjust-ments at January 1, 2010	(b) and (e)	(c) and (e)	(f) and (e)	**IFRS Six Months Ended June 30, 2010**
Revenue						
Oil	47,474	-	-	-	-	47,474
Royalties	(2,994)					(2,994)
Interest	66	-	-	-	-	66
	44,546	-	-	-	-	44,546
Expenses						
Transportation	1,666	-	-	-	-	1,666
Production and operating	4,147	-	-	-	-	4,147
General and administrative	1,868	-	(11)	-	117	1,974
Depletion and depreciation	7,190	-	-	-	(3,427)	3,763
Stock-based compensation	3,987	-	-	299	-	4,286
Foreign exchange loss	103	-	-	-	-	103
Foreign new ventures expenditures	531	-	-	-	-	531
	19,492	-	(11)	299	(3,310)	16,470
Income before taxes and non-controlling interest	25,054	-	11	(299)	3,310	28,076
Taxes						
Special remunatory benefit	2,906	-	-	-	-	2,906
Income tax	8,260	-	-	-	-	8,260
Deferred tax expense	6,817	-	6	-	2,083	8,906
	17,983	-	6	-	2,083	20,072
Net income for the period	7,071	-	5	(299)	1,227	8,004
Net income attributable to:						
Common Shareholders	7,353	-	5	(299)	1,227	8,286
Non-controlling interest	(282)	-	-	-	-	(282)
Net income for the period	7,071	-	5	(299)	1,227	8,004
Foreign exchange gain (loss) on translation of self-sustaining operations	4,957	-	-	-	(26)	4,931
Comprehensive income for the period	12,028	-	5	(299)	1,201	12,935
Retained earnings, beginning of period	47,259	(5,492)	-	-	-	41,767
Net income attributable to Common Shareholders	7,353	-	5	(299)	1,227	8,286
Retained earnings, end of period	54,612	(5,492)	5	(299)	1,227	50,053

Consolidated Statement of Operations and Retained Earnings for the Three Month Ended June 30, 2010 (unaudited)

($000s)	**Canadian GAAP Three Months Ended June 30, 2010**	Opening Adjust-ments	(b) and (e)	(c) and (e)	(f) and (e)	**IFRS Three Months Ended June 30, 2010**
Revenue						
Oil	22,436	-	-	-	-	22,436
Royalties	(1,384)					(1,384)
Interest	30	-	-	-	-	30
	21,082	-	-	-	-	21,082
Expenses						
Transportation	802	-	-	-	-	802
Production and operating	1,949	-	-	-	-	1,949
General and administrative	565	-	(5)	-	66	627
Depletion and depreciation	3,526	-	-	-	(1,694)	1,831
Stock-based compensation	3,695	-	-	338	-	4,033
Foreign exchange gain	(68)	-	-	-	-	(68)
Foreign new ventures expenditures	531	-	-	-	-	531
	11,000	-	(5)	338	(1,628)	9,705
Income before taxes and non-controlling interest	10,082	-	5	(338)	1,628	11,377
Taxes						
Special remunatory benefit	737	-	-	-	-	737
Income tax	3,673	-	-	-	-	3,673
Deferred tax expense	1,966	-	2	-	1,025	2,993
	6,376	-	2	-	1,025	7,403
Net income for the period	3,706	-	3	(338)	603	3,974
Net income attributable to:						
Common Shareholders	3,948	-	3	(338)	603	4,216
Non-controlling interest	(242)	-	-	-	-	(242)
Net income for the period	3,706	-	3	(338)	603	3,974
Foreign exchange gain (loss) on translation of self-sustaining operations	6,070	-	-	-	(13)	6,057
Comprehensive income for the period	9,776	-	3	(338)	590	10,031
Retained earnings, beginning of period	50,664	(4,827)	-	-	-	45,837
Net income attributable to Common Shareholders	3,948	-	3	(338)	603	4,216
Retained earnings, end of period	54,612	(4,827)	3	(338)	603	50,053

(a) Reclassifications and Other

Exploration and evaluation (E&E) assets

E&E assets consist of the Company's undeveloped properties associated with the following areas:

- Undeveloped portion of Concession SW1/L44;
- Undeveloped portion of Concession L33;
- Undeveloped portion of Concession L53;
- Citarum PSC;
- Batu Gajah PSC;
- South CPP PSC; and
- Sawn Lake.

The Company applied the IFRS 1 election for full cost oil and gas entities whereby the full cost pool in each country was first allocated to E&E assets based on their company value under Canadian GAAP and then allocated to producing assets based on reserve volumes.

(b) Decommissioning Costs

Under Canadian GAAP, the decommissioning provision was initially measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred at the credit adjusted risk free rate. The decommissioning provision is not re-measured using current discount rates. Under IFRS, the decommissioning provision is measured as the best estimate of the expenditure to be incurred and discounted at the risk-free rate. Under IFRS, the change in discount rates increased the decommissioning provision with an offset recorded in retained earnings.

(c) Stock-based compensation expense

Under Canadian GAAP the Company used the straight line method to expense vested options. The fair value of stock based awards was calculated as one grant and the resulting fair value was recognized on a straight line basis over vesting period. Under IFRS each tranche of an award with different vesting dates is valued separately and the resulting fair value is amortized over the vesting period of the respective tranches.

The Company elected an IFRS 1 exemption for all options issued whereby the stock-based compensation expense and contributed surplus for options that vested prior to the transition date were not required to be restated.

(d) Accumulated other comprehensive income

On the date of adoption of IFRS, the Company elected to reclassify foreign exchange translation losses included in accumulated other comprehensive income recognized in accordance with Canadian GAAP to the retained earnings. As such, the accumulated other comprehensive income at January 1, 2010, which was made up entirely of cumulative translation differences, was reclassified to the retained earnings.

(e) Deferred tax

Upon transition of IFRS, the Company's deferred tax liability is adjusted as a result of the transitional adjustments affecting the carrying value of property, plant, and equipment, exploration and evaluation assets, and decommissioning liabilities.

(f) Depletion

Upon transition to IFRS, the Company adopted a policy of depleting petroleum and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under Canadian GAAP was based on units of production over proved reserves.

5) ACQUISITION ACTIVITIES

Indonesia
During the six months ended June 30, 2011 the Company acquired additional interests in each of its three PSCs through two separate transactions:

1. The repurchase of a 7% carried interest in the Batu Gajah and South CPP PSCs, increasing the Company's interest to 97% for total consideration of USD $1.3 million including the issuance of 28,958 share of Pan Orient at a deemed market value of USD $0.2 million; and
2. The repurchase of an 8% carried interest in the Citarum PSC, increasing the Company's interests to 77% for consideration of USD $0.5 million, including the issuance of 21,719 shares of Pan Orient at a deemed market value of $0.15 million.

Combined consideration of the transactions was $1.8 million CAD as follows:

($000s)	
Consideration:	
Cash	1,398
Transaction costs	19
Total cash consideration	1,417
Shares issued	344
Total	1,761

The acquisition was not considered a business combination under IFRS therefore E&E assets have been increased by the amount of the consideration paid.

Sawn Lake
Andora entered into a binding conveyance agreement in February 2011 to acquire an additional 10% working interest in the Sawn Lake Central and North Blocks. Consideration issued to the vendor in the transaction was 4,433,031 non-voting special warrants of Andora. Each special warrant will entitle the holder thereof to receive one common share of Andora, at no additional consideration and without any further action, upon the happening of a liquidity event involving Andora. If a liquidity event is not completed by November 25, 2011 (subject to extension by the parties), the acquired interests will be reconveyed to the vendor and the warrants will be cancelled. The estimated fair value of the warrants of $3.2 million are included in non-controlling interest.

6) PETROLEUM AND EQUIPMENT

($000s)	Corporate Assets	Thailand Concessions	Indonesia	Total
Cost				
At January 1, 2010	307	61,134	-	61,441
Additions	107	28,634	-	28,741
Foreign currency translation	-	5,442	-	5,442
Transfers from exploration and evaluation	-	29,360	-	29,360
Changes in decommissioning provision	-	2,227	-	2,227
At December 31, 2010	414	126,797	-	127,211
Additions	139	27,770	-	27,909
Foreign currency translation	-	(8,455)	-	(8,455)
Transfers from exploration and evaluation	-	268	-	268
Changes in decommissioning provision	-	1,113	-	1,113
At June 30, 2011	553	147,493	-	148,046
Accumulated depreciation and depletion				
At January 1, 2010	-	-	-	-
Charge for the year	(158)	(8,666)	-	(8,824)
At December 31, 2010	(158)	(8,666)	-	(8,824)
Charge for the period	(72)	(3,739)	-	(3,811)
At June 30, 2011	(230)	(12,405)	-	(12,635)
Net book value				
At June 30, 2011	323	135,088	-	135,411
At December 31, 2010	256	118,131	-	118,387
At January 1, 2010	307	61,134	-	61,441

General and administrative and stock-based compensation costs totaling $0.9 million (2010 - $1.0 million) and $1.7 million (2010 - $2.4 million) that were directly related to exploration and development activities have been capitalized for the three and six months ended June 30, 2011, respectively.

7) EXPLORATION AND EVALUATION COSTS

A reconciliation of the carrying amount of exploration and evaluation assets as at June 30, 2011 and December 31, 2010 is set out below.

($000s)	Canada	Thailand	Indonesia	Total
At January 1, 2010	56,751	23,832	37,845	118,428
Additions	1,577	14,720	16,086	32,383
Foreign currency translation	-	2,839	(1,823)	1,016
Transfers to petroleum and equipment	-	(29,360)	-	(29,360)
At December 31, 2010	58,328	12,031	52,108	122,467
Additions	3,426	23	14,493	17,942
Foreign currency translation	-	(508)	(53)	(561)
Transfers to petroleum and equipment	-	(268)	-	(268)
At June 30, 2011	61,754	11,278	66,548	139,580

Recoverability of the Canadian and Indonesian capitalized costs is dependent on successfully completing development of the properties. With respect to the Canadian properties, recoverability is also dependent on determining the technical feasibility of the project. Capitalized costs incurred to date do not necessarily represent present or future values.

The carrying value of the Company's unproved Canadian and Indonesian properties are expected to be recoverable and as such no writedown has been recorded.

8) DECOMMISSIONING PROVISION

	Six Months Ended June 30	
($000s)	**2011**	**2010**
Decommissioning provision, beginning of period	7,390	5,022
Obligations incurred	1,143	974
Revisions to obligations	76	(26)
Accretion	177	106
Decommissioning provision, end of period	8,786	6,076

The decommissioning provision is based on the Company's net ownership of wells and facilities in Thailand, Indonesia and Canada, management's estimates of costs to abandon and reclaim those wells and facilities and the potential future timing of the costs to be incurred.

Total undiscounted cash flows, escalated at 2.0%, required to settle the Company's decommissioning provision are estimated to be $14.1 million (2010 - $10.3 million). Payments to settle this provision will occur over the operating lives of the underlying assets estimated, for the majority of wells, to be between 2020 and 2025. Estimated costs have been discounted at the risk-free interest rate in the jurisdiction of the expenditure which averaged 4% at June 30, 2011 (2010 – 4%).

9) SHARE CAPITAL

a) Authorized
Unlimited Common Voting Shares
Unlimited Preferred Shares

b) Issued and Outstanding Class A Common Shares

Common Shares	Number of shares	Amount (000s)
Balance as at December 31, 2010	48,740,866	110,576
Issued through private placement, net of share issue costs	7,557,264	46,530
Indonesia acquisition (note 5)	50,677	344
Exercise of stock options	336,500	1,086
Transfer from contributed surplus on exercise of stock options	-	820
Balance as at June 30, 2011	56,685,307	$ 159,356

c) Options to Purchase Common Shares

	Number of options	Weighted average exercise price ($)
Balance as at January 1, 2010	4,441,500	3.66
Granted	2,501,500	7.14
Exercised	(2,427,500)	1.52
Forfeited	(62,500)	7.72
Balance as at December 31, 2010	4,453,000	6.73
Exercised	(336,500)	3.23
Balance as at June 30, 2011	4,116,500	7.01

	Options Outstanding June 30, 2011			Options Exercisable June 30, 2011		
Exercise Price ($)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (years)
3.41 – 4.00	765,000	3.72	1.56	642,500	3.73	1.33
4.01 – 6.00	300,000	5.67	2.95	208,334	5.65	2.94
6.01 – 8.00	2,501,500	7.14	2.86	1,630,170	7.15	2.82
11.75	550,000	11.75	1.46	550,000	11.75	1.46
3.41 – 11.75	4,116,500	7.01	2.43	3,031,004	7.16	2.26

d) Stock-based Compensation

The fair value of the stock options granted has been estimated on the grant dates using the Black-Scholes option pricing method. Weighted average assumptions and resultant fair values for stock options granted during the periods ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Risk free interest rate (%)	-	3	-	3
Expected lives (years)	-	4	-	4
Expected volatility (%)	-	40	-	40
Dividend per share (%)	-	-	-	-
Forfeiture rate (%)	-	10	-	10
Weighted average fair value ($)	$ -	$ 0.25	$ -	$ 0.25

e) Andora Energy Corporation

i) Issued and Outstanding Class A Common Shares

As at June 30, 2011 Andora had 57.3 million (December 31, 2010 – 57.3 million) Common Shares issued and outstanding of which Pan Orient held 53.4% (December 31, 2010 – 53.4%).

ii) Special Warrants

As at June 30, 2011 4,433,031 non-voting special warrants of Andora were outstanding; issued in conjunction with an acquisition completed by Andora (see note 5). Each special warrant entitles the holder thereof to receive one common share of Andora, at no additional consideration and without any further action, upon the happening of a liquidity event involving Andora. If a liquidity event is not completed by November 25, 2011 (subject to extension by the parties), the acquired interests will be reconveyed to the vendor and the warrants will be returned to Andora for cancellation.

iii) Options to Purchase Common Shares of Andora

	Number	**Weighted Average Exercise Price**
Balance, as at January 1, 2010	1,325,000	$ 1.60
Granted	5,775,000	0.72
Expired	(50,000)	1.60
Cancelled	(1,275,000)	1.60
Forfeited	-	-
Balance, as at December 31, 2010 and June 30, 2011	5,775,000	$ 0.72

The following stock options of Andora are outstanding and exercisable at June 30, 2011:

	Options Outstanding June 30, 2011			Options Exercisable June 30, 2011		
Exercise Price ($)	**Number of Options**	**Weighted Average Exercise Price ($)**	**Weighted Average Remaining Contractual Life (years)**	**Number of Options**	**Weighted Average Exercise Price ($)**	**Weighted Average Remaining Contractual Life (years)**
0.72	5,775,000	0.72	2.8	3,850,000	0.72	2.8

Weighted average assumptions and resultant fair values used in the Black Scholes calculations for Andora stock options granted during the periods ended June 30, 2011 and 2010 were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Risk free interest rate (%)	-	2	**-**	2
Expected lives (years)	-	4	**-**	4
Expected volatility (%)	-	20	**-**	20
Dividend per share (%)	-	-	**-**	-
Forfeiture rate (%)	-	10	**-**	10
Weighted average fair value ($)	**$** -	$ 0.20	**$ -**	$ 0.20

f) Contributed Surplus

	Three Months Ended June 30		Six Months Ended June 30	
($000s)	**2011**	**2010**	**2011**	**2010**
Balance, beginning of period	**14,513**	7,958	**13,569**	8,574
Pan Orient stock-based compensation expense	**486**	3,551	**1,502**	3,804
Pan Orient stock-based compensation capitalized	**48**	15	**99**	127
Andora stock-based compensation expense	**69**	482	**214**	482
Andora stock-based compensation capitalized	**8**	59	**26**	67
Transferred to share capital on exercise of options	**(534)**	(985)	**(820)**	(1,833)
Increase in Andora interest	**-**	(9)	**-**	(150)
Balance, end of period	**14,590**	11,071	**14,590**	11,071

Capitalized stock-based compensation relates to options granted to individuals engaged in exploration and development activities.

g) Net Income per Share Attributable to Common Shareholders

The basic weighted average and diluted common shares outstanding were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Weighted average basic shares outstanding	**56,644,329**	48,435,409	**53,798,718**	47,721,288
Dilutive effect of stock options	**335,024**	757,282	**473,090**	766,114
Weighted average diluted	**56,979,353**	49,192,691	**54,271,808**	48,487,402

Options to purchase 3,251,500 and 3,051,500 common shares, respectively, for three and six months ended June 30, 2011 (three and six months ended June 30, 2010 – 2,986,500) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

10) TAXES

The Company is required to pay both Special Remuneratory Benefit (SRB) and income tax in Thailand. Thai income tax is calculated at 50% of taxable income which is basically comprised of cash flow from operations before changes in working capital less capital expenditures and other permitted deductions.

SRB is calculated separately for each of the Company's four concessions and is not charged until all capital has been recovered. The sliding scale SRB rate ranges from 0 - 75% and is principally driven by production and pricing but is also subject to other adjustments such as changes in Thailand's consumer price index, wholesale price index and cumulative meters drilled on the concession. The calculated SRB tax rate is applied to petroleum profits as defined in Thai tax legislation which includes a deduction for capital spent.

A summary of tax payable for the three and six months ended June 30, 2011 and 2010 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
($000s)	**2011**	**2010**	**2011**	**2010**
Balance, beginning of period	**13,327**	21,484	**12,509**	14,918
SRB expense – current period	**(23)**	737	**-**	2,906
Income tax – current period	**686**	3,673	**1,671**	8,260
Prior period SRB paid	**(6,407)**	(6,585)	**(6,407)**	(6,585)
Prior period income tax paid	**(6,071)**	(8,439)	**(6,071)**	(8,439)
Foreign exchange	**153**	797	**(37)**	607
Balance, end of period	**1,665**	11,667	**1,665**	11,667

11) FINANCIAL INSTRUMENTS

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that future cash flows, net income and comprehensive income will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum sales are denominated in Thai baht based on a $USD oil price, and all operational and capital activities related to the Thailand properties are transacted in either Thai baht or the U.S. dollar. As well, the underlying market prices in Thailand for petroleum are impacted by changes in the exchange rate between the Thai baht and U.S. dollar.

The work commitments in Indonesia are expected to be carried out in U.S. dollars.

The Company's reporting currency is the Canadian dollar and its functional currencies are the Canadian dollar, the Thai baht and the U.S. dollar (USD). Changes in foreign exchange rates between the Canadian dollar and the U.S. dollar and Thai baht can affect net income and other comprehensive income. As at June 30 the following financial instruments were denominated in currencies other than the Canadian dollar:

	As at June 30, 2011		**As at June 30, 2010**	
($000s)	Thai baht (000s of Thai baht)	USD ($000s)	Thai baht (000s of Thai baht)	USD ($000s)
Cash and cash equivalents	**481,410**	**2,604**	336,973	8,389
Accounts receivable	**205,687**	**103**	294,037	687
Deposits	**44,000**	**2,460**	44,000	2,547
Accounts payable	**(232,134)**	**(5,628)**	(183,462)	(4,002)
Taxes payable	**(42,854)**	**-**	(348,824)	-
Net exposure in functional currency	**456,109**	**(461)**	142,724	7,621
Net exposure in Canadian dollars[(1)] ($000s)	**14,535**	**(454)**	4,689	8,078

(1) Translated at June 30, 2011 and 2010 exchange rates.

Based on financial instruments held at June 30, 2011 and 2010, fluctuations in the exchange rates as indicated below would have the following estimated effect on net income and other comprehensive income:

	As at June 30	
($000s)	**2011**	**2010**
Effect of 1% change in CAD$ to USD exchange rate:		
Pre-tax net income	**-**	93
Other comprehensive income	**1**	9
Effect of 1% change in CAD$ to baht exchange rate:		
Pre-tax net income	**-**	-
Other comprehensive income	**147**	47

The Company did not have any forward exchange contracts in place as at or during the three or six months ended June 30, 2011 or 2010.

12) RELATED PARTIES TRANSACTION

In 2011 Pan Orient remitted to the Canada Revenue Agency $74,588 on behalf of the President and Chief Executive Officer of the Company. This amount represents the required tax remittance on the benefit related to exercise of 90,000 stock options of the Company. Pursuant to the agreement between the Company and the CEO, the Company will be reimbursed for the remitted amount and accrued interest, at the HSBC Bank Canada reference rate plus 1%, by April 30, 2012. Security for the payment consists of 18,000 Pan Orient Common Shares pledged to the Company.

13) SEGMENTED INFORMATION

The Company has properties in three countries, each of which is considered a separate operating segment. The three segments consist of: 1) partially developed conventional petroleum and natural gas properties in Thailand; 2) undeveloped petroleum and natural gas properties in Indonesia; and 3) an undeveloped heavy oil property in Canada. The following table provides information for each geographical segment for the three and six months ended June 30:

	Three Months Ended June 30		**Six Months Ended June 30**	
($000s)	**2011**	**2010**	**2011**	**2010**
Petroleum revenue				
Thailand	**18,521**	22,436	**36,970**	47,474
Indonesia	**-**	-	**-**	-
Canada	**-**	-	**-**	-
Total	**18,521**	22,436	**36,970**	47,474
Current income tax expense[(1)]				
Thailand	**663**	4,410	**1,671**	11,166
Indonesia	**-**	-	**-**	-
Canada	**-**	-	**-**	-
Total	**663**	4,410	**1,671**	11,166
Depletion and depreciation				
Thailand	**1,888**	1,710	**3,706**	3,517
Indonesia	**21**	81	**33**	163
Canada	**40**	40	**72**	83
Total	**1,949**	1,831	**3,811**	3,763
Net income (loss) attributable to common shareholders				
Thailand	**5,776**	7,989	**11,234**	12,314
Indonesia	**(622)**	(188)	**(635)**	(321)
Canada	**(546)**	(3,585)	**(2,063)**	(3,707)
Total	**4,608**	4,216	**8,536**	8,286
Capital expenditures [(2)]				
Thailand	**13,345**	9,582	**27,759**	23,001
Indonesia	**9,004**	6,481	**14,494**	13,267
Canada	**146**	346	**214**	410
Total	**22,495**	16,409	**42,467**	36,678

(1) Includes SRB and income tax.
(2) Does not include acquisition activities.

14) COMMITMENTS

As at June 30, 2011 the Company's estimated outstanding capital commitments were as follows:

			Estimated Net Financial Commitment	
Country and Concession Name	**Remaining Work Program Commitment**	**Obligation Period Ending**	**USD ($000s)**	**CAD ($000s) (1)**
Thailand				
L 44/43	▪ study and training fund	July 2012	18	17
L33/43	▪ geological studies	July 2012	30	29
	▪ study and training fund		18	17
L 53/48	▪ drill 2 exploration wells	January 2013	650	627
	▪ geological studies		55	53
	▪ study and training fund		47	45
Total Thailand			818	788
Indonesia (2)(3)				
Citarum	▪ drill 3 exploration wells	October 2011	12,341	11,947
Batu Gajah	▪ 400 km^2 3D seismic	January 2012	14,644	14,175
	▪ drill 1 exploration well			
South CPP	▪ 200 km 2D seismic	November 2012	5,388	5,216
	▪ drill one exploration well	November 2013		
Total Indonesia			32,373	31,338
Consolidated Total			**33,191**	**32,126**

(1) Translated at June 30, 2011 exchange rates.
(2) 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 (3% for each PSC).
(3) Does not include planned capital activities with respect to the East Jabung PSC, which is expected to be signed by the end of August 2011.

Indonesia financial commitments as provided above represent the work program required under the initial 3-year exploration period of the PSC. With respect to Citarum , Batu Gajah and South CPP extension of this initial exploration period has been successfully negotiated with the Government of Indonesia (GOI) to the dates indicated above. If Pan Orient exercises its options to continue beyond the exploration period, additional commitments will be determined on a year-by-year basis through submission of a work program and approval from the GOI

Although extension of the exploration period is a departure from the original contract, it is considered standard practice in Indonesia. 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, both Citarum and Batu Gajah have complied with these penalty relinquishments. 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 management's estimates of the minimum amounts required to fulfill the work program requirements in Thailand and Indonesia. Actual expenditures required to carry out these commitments may be significantly different from the estimates. The Company intends to fund commitments through expected cash flows from Thailand and the Company's existing cash balance.