



PAN ORIENT ENERGY CORP.

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE
THREE AND SIX MONTHS ENDED JUNE 30, 2012
(Unaudited)**

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

(\$000s)	June 30, 2012	December 31, 2011
Assets		
Current		
Cash and cash equivalents	188,929	52,407
Accounts receivable	23,633	11,591
	212,562	63,998
Long term accounts receivable (note 5)	3,073	-
Deposits	688	2,981
Petroleum and equipment (note 3)	38,617	155,326
Exploration and evaluation costs (note 4)	164,373	148,971
	419,313	371,276
Liabilities		
Current		
Accounts payable and accrued liabilities	15,694	11,635
Taxes payable (note 8)	16,093	3,712
	31,787	15,347
Deferred tax liabilities	16,145	61,056
Employee pension liabilities	-	201
Decommissioning provision (note 6)	2,114	11,759
	50,046	88,363
Shareholders' equity (note 7)		
Share capital	159,356	159,356
Contributed surplus	16,086	15,456
Non-controlling interest	17,829	17,932
Accumulated other comprehensive (loss) income	(695)	887
Retained earnings	176,691	89,282
	369,267	282,913
Commitments (note 11)		
Subsequent events (note 12)		
	419,313	371,276

See accompanying notes to the condensed consolidated financial statements.

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

(\$000s, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2012	2011	2012	2011
Revenue				
Oil	12,502	18,521	38,156	36,970
Royalties	(619)	(967)	(1,941)	(1,968)
Interest	98	180	176	218
	11,981	17,734	36,391	35,220
Expenses				
Transportation	249	407	693	876
Production and operating	1,761	2,397	3,887	4,534
General and administrative	1,795	998	3,118	2,413
Gain on sale of Thailand interests (note 5)	(93,393)	-	(93,393)	-
Depletion and depreciation	2,325	1,949	6,722	3,811
Stock-based compensation	206	555	586	1,716
Foreign exchange (gain) loss	(222)	77	(189)	259
Foreign new venture expenditures	-	59	-	59
	(87,279)	6,442	(78,576)	13,668
Income before taxes and non-controlling interest	99,260	11,292	114,967	21,552
Taxes (note 8)				
Special remuneratory benefit	-	(23)	-	-
Current income tax	17,599	686	19,495	1,671
Deferred tax expense	2,427	6,102	8,166	11,531
	20,026	6,765	27,661	13,202
Net income for the period	79,234	4,527	87,306	8,350
Foreign exchange gain (loss) on translation of foreign operations	2,358	(2,300)	1,273	(8,424)
Comprehensive income (loss) for the period	81,592	2,227	88,579	(74)
Net income attributable to:				
Common shareholders	79,285	4,608	87,409	8,536
Non-controlling interest	(51)	(81)	(103)	(186)
Net income for the period	79,234	4,527	87,306	8,350
Comprehensive income for the period attributable to:				
Common shareholders	81,643	2,308	88,682	112
Non-controlling interest	(51)	(81)	(103)	(186)
Comprehensive income (loss) for the period	81,592	2,227	88,579	(74)
Net income per share attributable to common shareholders				
Basic	\$1.40	\$0.08	\$1.54	\$0.16
Diluted	\$1.40	\$0.08	\$1.54	\$0.16

See accompanying notes to the condensed consolidated financial statements.

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

(\$000s)	Common Shares	Contributed Surplus	NCI	AOCI	Retained Earnings	Total
Balance as at December 31, 2010	110,576	13,569	18,227	2,915	65,291	210,578
Net income	-	-	(186)	-	8,536	8,350
Stock-based compensation expense	-	1,716	-	-	-	1,716
Capitalized stock-based compensation	-	125	-	-	-	125
Shares 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 affecting non-controlling interest	-	-	3,191	-	-	3,191
Other comprehensive loss	-	-	-	(8,424)	-	(8,424)
Balance as at June 30, 2011	159,356	14,590	21,232	(5,509)	73,827	263,496
Balance as at December 31, 2011	159,356	15,456	17,932	887	89,282	282,913
Net income	-	-	(103)	-	87,409	87,306
Stock-based compensation expense	-	586	-	-	-	586
Capitalized stock-based compensation	-	44	-	-	-	44
Impact on AOCI from disposal of Thai assets	-	-	-	(2,855)	-	(2,855)
Other comprehensive income	-	-	-	1,273	-	1,273
Balance as at June 30, 2012	159,356	16,086	17,829	(695)	176,691	369,267

See accompanying notes to the condensed consolidated financial statements.

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

(\$000s)	Six Month Ended June 30	
	2012	2011
Cash Provided By (Used in)		
Operating Activities		
Net income	87,306	8,350
Items not affecting cash		
Depletion and depreciation	6,722	3,811
Accretion	156	177
Stock-based compensation	586	1,716
Gain on sale of Thailand interest (note 5)	(93,393)	-
Taxes	27,661	13,202
Non-cash foreign venture expenditures	-	59
	29,038	27,315
Taxes paid	(3,750)	(12,478)
Changes in non-cash working capital	5,425	1,869
	30,713	16,706
Investing Activities		
Petroleum and natural gas properties	(45,451)	(42,467)
Indonesia acquisition	-	(1,417)
Net proceeds received on sale of Thailand interest	149,102	-
Deposits	2,277	727
Change in non-cash working capital	(678)	2,813
	105,250	(40,344)
Financing Activities		
Issue of common shares	-	50,587
Share issue costs	-	(2,971)
	-	47,616
Change in cash and cash equivalents	135,963	23,978
Effect of foreign exchange on cash balances	559	(1,791)
Cash and cash equivalents, beginning of period	52,407	37,061
Cash and cash equivalents, end of period	188,929	59,248

See accompanying notes to the condensed consolidated financial statements.

Pan Orient Energy Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
For the Six Months ended June 30, 2012 and 2011

1) DESCRIPTION OF BUSINESS

Pan Orient Energy Corp. (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

The interim consolidated financial statements for the Company as at June 30, 2012 and for the six months ended June 30, 2012 and 2011 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2011. The interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements.

The interim consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with the International Accounting Standards 34, "Interim Financial Reporting".

The interim consolidated financial statements were approved by the Company's Board of Directors on August 21, 2012.

3) PETROLEUM AND EQUIPMENT

(\$000s)	Corporate Assets	Thailand Concessions	Indonesia	Total
Cost				
At December 31, 2011	507	174,605	-	175,112
Additions	70	21,781	-	21,851
Dispositions		(151,444)	-	(151,444)
Foreign currency translation	-	1,139	-	1,139
Changes in decommissioning provision	-	890	-	890
At June 30, 2012	577	46,971	-	47,548
Accumulated depreciation and depletion				
At December 31, 2011	(296)	(19,490)	-	(19,786)
Dispositions	-	17,554	-	17,554
Charge for the period	(61)	(6,638)	-	(6,699)
At June 30, 2012	(357)	(8,574)	-	(8,931)
Net book value				
At June 30, 2012	220	38,397	-	38,617
At December 31, 2011	211	155,115	-	155,326

Pan Orient Energy Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
For the Six Months ended June 30, 2012 and 2011

4) EXPLORATION AND EVALUATION COSTS

A reconciliation of the carrying amount of exploration and evaluation assets as at June 30, 2012 and December 31, 2011 is set out below.

(\$000s)	Canada	Thailand	Indonesia	Total
At December 31, 2011	58,484	12,508	77,979	148,971
Additions	148	4,988	18,485	23,621
Dispositions	-	(9,314)	-	(9,314)
Changes in decommissioning provision	(89)	-	19	(70)
Foreign currency translation	-	128	1,037	1,165
At June 30, 2012	58,543	8,310	97,520	164,373

5) DISPOSITION OF THAILAND INTEREST

During the three months ended June 30, 2012, the Company closed the sale of its operated 60% interest in Thailand Concessions L44/43, L33/43 and SW1 for net proceeds of \$174.0 million, resulting in a net gain on disposition of \$93.4 million, before estimated current income taxes of \$16.1 million. As at June 30, 2012 there was \$19.3 million held in escrow accounts jointly controlled by the Company and the purchaser of the interests. \$3.1 million is held in escrow to support any warranty claims until December 15, 2013 and has been classified as long term, and the remaining balance was received in July 2012.

The gain on disposition, before tax, is calculated as follows:

(\$000s)	
Proceeds from disposition	185,273
Transaction costs	(11,232)
Net proceeds	174,041
Net assets disposed of:	
Cash and cash equivalents	(5,618)
Non-cash working capital	1,027
Petroleum and equipment	(133,890)
Exploration and evaluation costs	(9,314)
Decommissioning provision	10,763
Deferred tax liabilities	53,327
Other	3,057
Gain on disposition, before tax	93,393

6) DECOMMISSIONING PROVISION

(\$000s)	Six Months Ended June 30	
	2012	2011
Decommissioning provision, beginning of period	11,759	7,390
Obligations incurred	592	1,143
Revisions to obligations	228	76
Dispositions of Thai assets	(10,763)	-
Foreign currency translation	142	-
Accretion	156	177
Decommissioning provision, end of period	2,114	8,786

Estimated costs have been discounted at the risk-free interest rate in the jurisdiction of the expenditures which averaged 3% at June 30, 2012 (2011 . 4%).

Pan Orient Energy Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
For the Six Months ended June 30, 2012 and 2011

7) SHARE CAPITAL

a) Issued and Outstanding Class A Common Shares

Common Shares	Number of shares	Amount (000s)
Balance as at December 31, 2011 and June 30, 2012	56,685,307	\$ 159,356

b) Options to Purchase Common Shares

	Number of options	Weighted average exercise price (\$)
Balance as at January 1, 2011	4,453,000	6.73
Exercised	(336,500)	3.23
Expired	(300,000)	3.90
Balance as at December 31, 2011	3,816,500	7.26
Granted	200,000	3.35
Forfeited	(150,000)	5.90
Balance as at June 30, 2012	3,866,500	7.11
Exercisable at June 30, 2012	3,688,167	7.25

c) 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, 2012 and 2011 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Risk free interest rate (%)	1	-	1	-
Expected lives (years)	5	-	5	-
Expected volatility (%)	65	-	65	-
Dividend per share (%)	-	-	-	-
Forfeiture rate (%)	10	-	10	-
Weighted average fair value (\$)	\$ 1.83	\$ -	\$ 1.83	\$ -

d) Andora Energy Corporation

i) Issued and Outstanding Class A Common Shares

As at June 30, 2012 Andora had 57.3 million (December 31, 2011 . 57.3 million) common shares issued and outstanding of which Pan Orient held 53.4% (December 31, 2011 . 53.4%).

ii) Options to Purchase Common Shares of Andora

	Number	Weighted Average Exercise Price
Balance, as at June 30, 2012	5,775,000	\$ 0.72
Exercisable, as at June 30, 2012	5,775,000	\$ 0.72

Pan Orient Energy Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
For the Six Months ended June 30, 2012 and 2011

e) Net Income per Share Attributable to Common Shareholders

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

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Weighted average basic shares outstanding	56,685,307	56,644,329	56,685,307	53,798,718
Dilutive effect of stock options	-	335,024	-	473,090
Weighted average diluted	56,685,307	56,979,353	56,685,307	54,271,808

Options to purchase 3,866,500 common shares for three and six months ended June 30, 2012 (three and six months ended June 30, 2011 . 3,251,500 and 3,051,500 respectively) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

8) 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 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. It 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, 2012 and 2011 is as follows:

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Balance, beginning of period	5,923	13,327	3,712	12,509
SRB expense . current period	-	(23)	-	-
Income tax . current period	17,599	686	19,495	1,671
Prior period SRB paid	-	(6,407)	-	(6,407)
Prior period income tax paid	(3,750)	(6,071)	(3,750)	(6,071)
Taxes liability disposed on sale of Thai assets (note 5)	(3,711)	-	(3,711)	-
Foreign exchange	32	153	347	(37)
Balance, end of period	16,093	1,665	16,093	1,665

9) 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, 2012 and 2011, the following financial instruments were denominated in currencies other than the Canadian dollar:

Pan Orient Energy Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
For the Six Months ended June 30, 2012 and 2011

	As at June 30, 2012		As at June 30, 2011	
	Thai baht (000s of Thai baht)	USD (\$000s)	Thai baht (000s of Thai baht)	USD (\$000s)
Cash and cash equivalents	128,274	108,505	481,410	2,604
Accounts receivable	34,710	22,674	205,687	103
Deposits	20,000	-	44,000	2,460
Accounts payable	(110,320)	(8,472)	(232,134)	(5,628)
Taxes payable	(143)	-	(42,854)	-
Net exposure in functional currency	72,521	122,707	456,109	(461)
Net exposure in Canadian dollars ⁽¹⁾ (\$000s)	2,378	125,026	14,535	(454)

(1) Translated at June 30, 2012 and 2011 exchange rates.

10) 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, 2012 and 2011:

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Petroleum revenue				
Thailand	12,502	18,521	38,156	36,970
Indonesia	-	-	-	-
Canada	-	-	-	-
Total	12,502	18,521	38,156	36,970
Current income tax expense ⁽¹⁾				
Thailand	1,508	663	3,404	1,671
Indonesia	-	-	-	-
Canada	16,091	-	16,091	-
Total	17,599	663	19,495	1,671
Depletion and depreciation				
Thailand	2,280	1,888	6,638	3,706
Indonesia	13	21	23	33
Canada	32	40	61	72
Total	2,325	1,949	6,722	3,811
Net income (loss) attributable to common shareholders				
Thailand	3,043	5,776	11,810	11,234
Indonesia	(79)	(622)	(166)	(635)
Canada	76,321	(546)	75,765	(2,063)
Total	79,285	4,608	87,409	8,536
Capital expenditures ⁽²⁾				
Thailand	13,156	13,345	26,769	27,759
Indonesia	10,693	9,004	18,508	14,494
Canada	131	146	174	214
Total	23,980	22,495	45,451	42,467

(1) Includes SRB, income tax and estimated taxes payable on sale of the Thai assets (note 5)

(2) Does not include decommissioning provision and acquisition activities

Pan Orient Energy Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
For the Six Months ended June 30, 2012 and 2011

11) COMMITMENTS

As at June 30, 2012 the Company's estimated outstanding capital commitments are as follows:

Country and Concession Name	Remaining Work Program Commitment	Obligation Period Ending	Estimated Net Financial Commitment	
			USD (\$000s)	CAD ⁽¹⁾ (\$000s)
Thailand				
L 53/48	<ul style="list-style-type: none"> ▪ Geological studies ▪ Study and training fund 	<ul style="list-style-type: none"> January 2013 January 2013 	<ul style="list-style-type: none"> 25 47 	<ul style="list-style-type: none"> 26 49
Total Thailand			72	75
Indonesia ⁽²⁾				
Citarum	<ul style="list-style-type: none"> ▪ Drill three exploration wells 	October 2012	17,209	17,773
Batu Gajah	<ul style="list-style-type: none"> ▪ 400 km² 3D seismic and geological studies ▪ Drill one exploration well 	<ul style="list-style-type: none"> January 2013 January 2013 	<ul style="list-style-type: none"> 12,030 2,130 	<ul style="list-style-type: none"> 12,425 2,200
South CPP	<ul style="list-style-type: none"> ▪ 200 km 2D seismic and geological studies ▪ Drill one exploration well 	<ul style="list-style-type: none"> November 2012 November 2013 	<ul style="list-style-type: none"> 2,576 2,500 	<ul style="list-style-type: none"> 2,660 2,582
East Jabung	<ul style="list-style-type: none"> ▪ Seismic processing and geological studies ▪ Drill one pre-exploration well ▪ 250 km² 2D seismic and geological studies ▪ Geological studies ▪ Drill one exploration well 	<ul style="list-style-type: none"> November 2012 November 2012 November 2013 November 2014 November 2014 	<ul style="list-style-type: none"> 48 6,619 1,550 75 3,000 	<ul style="list-style-type: none"> 50 6,836 1,601 77 3,098
Total Indonesia			47,737	49,302
Consolidated Total			47,809	49,377

(1) Translated at June 30, 2012 exchange rates.

(2) Amounts recorded in the consolidated 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 the Citarum, Batu Gajah and South CPP PSC's).

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.

The Company has planned activities to meet the stated obligations, however the actual timing of completion of the work commitments is dependent upon a number of factors that may or may not be in control of the Company. Extensions for work programs are discussed with the GOI each September as part of process in setting the work program for the following year. 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, Citarum, Batu Gajah and South CPP 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 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.

12) SUBSEQUENT EVENTS

On August 20, 2012 shareholders approved a \$0.75 per share special distribution and the record date has been set as August 30, 2012 with a payment date of September 6, 2012. The special distribution is occurring in the course of a reorganization of Pan Orient's business after the sale of a portion of its Thailand assets and be funded from the net proceeds of that sale (note 5).

On July 5, 2012, Andora acquired all of the issued and outstanding shares of a private company for consideration of one million Andora common shares (the Acquisition). The common shares will be held in escrow and one-third of such shares will be released to the vendors on each of the first, second and third anniversary dates of the Acquisition. The acquired private company has filed a patent application with the United States Patent and Trademark Office in respect of a thermal system and process for producing steam from oilfield produced water. This company has no material assets other than the patent application. If the patent application is not approved prior to the third anniversary date of the Acquisition, the common shares issued to the vendors in consideration for the Acquisition will be surrendered to Andora and cancelled for no consideration. This decreased the Company's ownership of Andora from 53.4% to 52.5%.

The Company entered into a standby commitment agreement dated July 17, 2012 with respect to a rights offering by Andora. One right was issued for each outstanding Andora common share and 1.4 rights plus \$0.60 entitled the holder to subscribe for one Andora share. Pan Orient agreed to exercise all rights issued to it, and to acquire all Andora shares issuable pursuant to rights not exercised by other Andora shareholders, for an aggregate subscription price (when combined with the exercise of rights issued to Pan Orient) of up to \$25 million. The rights expired on August 9, 2012. By acquiring Andora shares through the exercise of rights issued to it and satisfaction of its standby commitment, the Company purchased an additional 41.2 million Andora shares for \$24.7 million, thereby increasing its ownership of Andora from 52.5% to 71.8%.