PAN ORIENT ENERGY CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

August 21, 2012

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the operating and financial results of Pan Orient Energy Corp. is prepared effective August 21, 2012 and should be read in conjunction with the unaudited consolidated financial statements and notes thereto for the three and six months ended June 30, 2012 and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2011. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

Please note that all amounts are in Canadian dollars unless otherwise stated, represent the net amount to Pan Orient's interests unless otherwise stated, and BOPD refers to barrels of oil per day net to Pan Orient.

Forward-Looking Statements

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

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

The Company provides forward-looking information with respect to reservoir and resource estimates related to Thailand and Canada and estimated costs associated with work commitments in Thailand and Indonesia. Reserve and resource estimates are prepared by independent reservoir engineers and there are numerous uncertainties inherent in estimating quantities of oil and the cash flows to be derived therefrom. In general, estimates of economically recoverable volumes and the associated future net cash flows are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of commodities, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserve and resource volumes are only attempts to define the degree of speculation involved. The Company's actual production, revenues and development and operating expenditures with respect to its reserve and resource estimates will vary from estimates thereof and such variations could be material. The Company's estimated commitments are based on internally-prepared budgets and, in the case where a tender process has been completed, actual contracted amounts. The estimated expenditures as provided by management will vary from the actual amounts required to carry out these commitments, and the difference may be significant.

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

The forward-looking statements contained herein are as of August 21, 2012 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 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-IFRS Measures

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

Funds flow from operations (funds flow), which represents cash flow from operating activities prior to changes in non-cash working capital and reclamation costs and after income tax paid, 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 IFRS:

($000s)	Three Months Ended June 30 2012	2011	Six Months Ended June 30 2012	2011
Cash flow from operating activities	**14,574**	4,417	**30,713**	16,706
Current tax expense relating operating activities	**(1,508)**	(663)	**(3,404)**	(1,671)
Add back changes in non-cash working capital	**(9,850)**	(2,949)	**(5,425)**	(1,869)
Add back taxes paid	**3,750**	12,478	**3,750**	12,478
Funds flow from operations	**6,966**	13,283	**25,634**	25,644

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

Petroleum and Natural Gas Properties

The Company's principal properties at June 30, 2012 are divided into three distinct groups: 1) partially developed concession located on-shore Thailand; 2) undeveloped interests on-shore Indonesia; and 3) undeveloped Canadian oil sands leases. Pan Orient is continually pursuing other oil and natural gas exploration acreage in Asia.

INTERNATIONAL INTERESTS

All amounts reflect Pan Orient's interest as at June 30, 2012 (Note1)	Status	Net Square Kilometers	June 30, 2012 Financial Commitments (CDN$ thousands)	
Onshore Thailand Concessions (Note 2)				
L53/48 (100% working interest & operator)	Partially developed	1,959	$ 75	January 2013
		1,959	$ 75	
Onshore Indonesia PSC's				
Citarum PSC, West Java (77% working interest & operator) (Note 3)	Undeveloped	684	$17,773	October 2012
Batu Gajah PSC, South Sumatra (97% working interest & operator) (Note 3)	Undeveloped	2,505	$14,625	January 2013
CPP South PSC, Central Sumatra (97% working interest & operator) (Note 3)	Undeveloped	2,603	$ 5,242	November 2012 to November 2013
Onshore & Offshore Indonesia PSC				
East Jabung PSC, South Sumatra (100% working interest & operator) (Note 3)	Undeveloped	4,339	$11,662	November 2012 to November 2014
		10,131	$49,302	
Consolidated Total		13,212	$ 49,377	

(1) Amounts shown are calculated as at and for the period ended June 30, 2012. Commitments are denominated in USD and translated at June 30, 2012 exchange rates.

(2) Interests in Thailand Concessions SW1, L44 and L33 were sold on June 15, 2012.

(3) Estimated commitment amounts in Indonesia to satisfy commitments include partners' carried interests (3% for Citarum, Batu Gajah and South CPP) in Indonesia. Commitments include completion of a work program as well as the amount of expenditure. Activities and timing reported are based on the original contract with certain revisions as approved by the Government of Indonesia ("GOI"). Actual expenditures required to carry out these commitments may be significantly different from these estimates. Financial commitments as provided above represent the work program required under the initial 3-year firm commitment exploration period of the PSC. The work program commitment is based on the original contract and timing is subject to government approval. With respect to Citarum, Batu Gajah and South CPP PSC's, extension of this initial exploration period has been agreed to with the Government of Indonesia (GOI) to the dates indicated above. If Pan Orient exercises its options to continue beyond the initial 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.

Thailand

At January 1, 2012 the Company had operated working interests in four concessions in Thailand: Concession 44/43 (“L44”); Concession SW1 (“SW1”); Concession 33/43 (“L33”); and Concession 53/48 (“L53”). Concessions SW1, L44 and L33 are located approximately 240 kilometers north of Bangkok and Concession L53 is located approximately 60 kilometers west of Bangkok. All of Pan Orient’s production is crude oil and is sold to a refinery near Bangkok owned by the Thai National Oil Company. Pan Orient is the operator of all four concessions in Thailand.

Proved plus probable reserves, as evaluated by independent reservoir engineers, as at December 31, 2011 assigned to the Thailand properties was 19.0 million barrels net to Pan Orient. Of this, 15.7 million barrels (83%) were allocated to L44, 0.5 million barrels (3%) to SW1, 2.0 million barrels (10%) to L33 and 0.8 million barrels (4%) to L53 for the L53-A field. Note that for the determination of crude oil reserves at December 31, 2011, no reserves were assigned to the new oilfield discovery with the L53-D2 well in Concession L53, which started drilling in December 2011 and started producing oil in January 2012 under a 90 day test period but has not yet been granted a production license.

On June 15, 2012 Pan Orient completed the sale of subsidiaries which held Pan Orient's 60% interests in Thailand Concessions L44, L33 and SW1.

Pan Orient has retained its operated 100% interest in Concession L53 in onshore Thailand. The L53-A oilfield commenced commercial production in August 2010. Proved plus probable reserves, as evaluated by independent reservoir engineers, as at December 31, 2011 assigned the sandstone L53-A oilfield in Concession L53 0.8 million barrels. The L53-D East sandstone oilfield was discovered with the L53-D2 exploration well which had been spudded in December 2011 and brought into production in January 2012 during a 90 day production testing period. No reserves were assigned to the L53-D East oilfield at December 31, 2011 since there was no production license in place. As part of the Thailand production license application for L53-D East, a third party contingent resource estimate for one of four fault compartments (compartment "A") was completed at the end of April and submitted with the application in early May for a production license for the L53-D East sandstone field. This report estimated contingent resources for compartment "A" of: 1C 0.264 million barrels, 2C 0.944 million barrels and 3C 4.242 million barrels. The L53D production license was granted on July 30, 2012 with an area of 11.98 square kilometers. The Company is still awaiting the associated environmental approval, which is expected within 90 days.

In the first six months of 2012 Pan Orient has drilled two wells in Concession L53 (being the L53-DST3 well and the L53-G well), plus continued work on the L53-D2 well which has included three sidetracks. In addition, a 3D seismic survey has been completed over the unexplored northeast portion of Concession L53 and initial interpretation of the preliminary processing has confirmed the presence of the prospect which had been identified on the old vintage, sparsely spaced 2D seismic data. There are four firm development wells and one water disposal well planned for the remainder of 2012 for approximately $8 million. Depending on the timing of approvals for wells in the new 3D area, a contingent additional two exploration wells are possible with incremental capital of $3 million.

Indonesia

The Company has working interests in the Citarum PSC located onshore west Java, the Batu Gajah PSC located onshore south Sumatra, the South CPP PSC located onshore south central Sumatra and the East Jabung PSC located on and offshore south Sumatra, with working interests as at June 30, 2012 as follows:

	Citarum	**Batu Gajah**	**South CPP**	**East Jabung**
Pan Orient working interest	77%	97%	97%	100%
Third party working interest	20%	-	-	-
Third party carried interest	3%	3%	3%	-
Total	100%	100%	100%	100%

Amounts recorded in the financial statements for capital expenditures and work commitments related to these PSCs include the amount paid by Pan Orient on behalf of the carried interest partners. If commercial production is established for a PSC, the amounts previously paid by Pan Orient on behalf of the carried interest partners will be recoverable through the partner’s share of crude oil or natural gas produced from that PSC.

At the Batu Gajah PSC, Pan Orient commenced the exploration drilling program in late March 2011. The Tuba Obi Utara-1 (NTO-1) exploration well drilled at the end of the first quarter and into the second quarter encountered 10.5 feet of gas pay within good-quality sand near the top of the Lower Talang Akar formation (“LTAF”). The follow-up NTO-1ST side track well encountered the same LTAF gas sand formation identified at the NTO-1 well, but of lower reservoir quality. Initial drilling results at North Tuba Obi are encouraging with proven gas in the LTAF and oil shows in the Upper Talang Akar sand. The first Appraisal of the North Tuba Obi gas discovery, NTO-2 is planned to be drilled in 2012 to target natural gas in the LTAF and oil in the overlying Upper Talang Akar and Air Benakat sandstone zones. The SE Tiung-1 exploration well drilled in June and into July encountered oil shows and good quality sands within the primary Lower Talang Akar target horizon but wire line logging indicated the zone to be water bearing. The secondary objective of the Gumai and Upper Talang Akar formation sands were also present, but interpreted as being water bearing. The planned 2012 capital program includes the drilling of two wells at the Batu Gajah PSC with the Shinta-1 exploration well and the NTO-2 appraisal well. Discussions continue towards a comprehensive road and land access agreement with the Indonesian forestry company which holds the surface rights associated prospects planned to be drilled in Batu Gajah in 2012. Drilling will commence after signed agreements are in place.

At the Citarum PSC, the Cataka-1 exploration well started drilling on December 31, 2011, encountered severe drilling difficulties and the decision was made in February 2012 to junk and abandon the well at a depth of approximately 400 meters TVD (1,500 meters above the primary reservoir objective). The Jatayu-1 exploration well started drilling on March 21, 2012 and is currently drilling. Upon the completion of drilling at the Jatayu-1 well the rig will mobilize back to the Cataka prospect for the Cataka 1A well and then to the Geulis exploration prospect.

At the South CPP PSC, preparations are underway for a 200 kilometer 2D seismic program in 2012.

On November 21, 2011 the Company signed the 6,228 square kilometer East Jabung PSC located on and offshore south Sumatra, obtaining operatorship and a 100% working interest. The PSC's firm three year exploration commitment includes two wells and 2D seismic acquisition and processing for approximately $11.7 million based on estimated costs for the capital program.

There were no reserves assigned to any of the Indonesia PSCs at December 31, 2011.

Canada

Andora Energy Corporation ("Andora"), a private oil company in which Pan Orient had 53% ownership at June 30, 2012, has an oil sands project in the Sawn Lake area of Northern Alberta. Andora received Commercial Scheme Approval for a Steam Assisted Gravity Drainage (SAGD) recovery process under the Oil Sands Conservation Act from the Energy Resources Conservation Board (ERCB) and approval from the Government of Alberta under the Environmental Protection and Enhancement Act (EPEA) in 2009.

The oil sands project at Sawn Lake Alberta as at December 31, 2011 was evaluated by Sproule Associates Ltd. ("Sproule"). The contingent resource volumes estimated in the Sproule report are considered contingent until such time as commercial recovery has been demonstrated, regulatory approvals have been obtained and the company has committed to proceed with commercial development. Contingent Resources are further classified as "High", "Best" and "Low" in accordance with the level of certainty. The report assigned Sawn Lake "Best Case" contingent resources of 114.4 million barrels attributed to the 53.4% ownership interest of Pan Orient in Andora.

In July 2012 Andora acquired a private company which provides Andora with proprietary thermal facility design / process capabilities and expands the Andora team with thermal facility design and operating specialists. This acquisition was through the issuance of 1 million common shares of Andora.

On August 10, 2012 Pan Orient increased its ownership of Andora Energy Corporation ("Andora") from 52.5% to 71.8% through an additional $24.7 million investment in Andora pursuant to a rights offering by Andora. Proceeds from the rights offering will be used for the procurement and construction of a thermal facility, drilling of one horizontal well pair, and operations in respect of its Sawn Lake Steam Assisted Gravity Drainage ("SAGD") development project at an estimated cost, including operating costs, of $23.5 million.

Summarized financial information with respect to Andora is as follows:

	As at and for the Three Months Ended June 30		**As at and for the Six Months Ended June 30**	
($000s)	**2012**	**2011**	**2012**	**2011**
Total assets	**58,130**	61,684	**58,130**	61,684
Total liabilities	**6,877**	6,962	**6,877**	6,962
Funds flow from operations	**(128)**	(183)	**(206)**	(68)
Net loss	**110**	400	**220**	175

HIGHLIGHTS

- On June 15, 2012 Pan Orient completed the sale of subsidiaries which held Pan Orient's 60% interests in Thailand Concessions L44, L33 and SW1 for proceeds, net of estimated costs and income tax, of $158.0 million. The Company recorded an after tax gain of $77.3 million for this Thailand disposition transaction. As at June 30, 2012 there was $19.3 million held in escrow accounts jointly controlled by Pan Orient and the purchaser of the interests. After receipt of a further $16.2 million in July, there is currently $3.1 million held in escrow to support any warranty claims until December 15, 2013.
- On August 20th shareholders approved the $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.
- Working Capital and non-current deposits at June 30, 2012 of $184.5 million, with no long-term debt and $4.9 million of equipment inventory to be utilized for future Thailand and Indonesia operations. Pan Orient will maintain financial strength while directing $24.7 million to Andora for advancement of the SAGD pilot program, the special distribution of $42.5 million, and up to $73.2 million for the 2012 / 2013 drilling and seismic programs in Indonesia. The $11 million Thailand drilling program at Concession L53 is expected to be funded through funds flow from Thailand operations. As at June 30, 2012 estimated commitments in Indonesia to November 2014 were $49.3 million for the Citarum, Batu Gajah, South CPP and East Jabung PSC's. Commitments in Thailand at June 30, 2012 were $0.1 million to January 2013.

- Second quarter 2012 corporate funds flow from operations of $7.0 million ($0.12 per share) and net income attributable to common shareholders of $79.3 million ($1.40 per share).
- Thailand oil sales in the second quarter of 2012 of 1,318 BOPD, including oil sales from the Thailand interests sold to June 14, and corresponding funds flow from Thailand operations of $7.8 million ($64.94 per barrel). July oil production from Concession L53 was 1,046 BOPD.
- Pan Orient has retained its operated 100% interest in Concession L53 in onshore Thailand.
    - Conventional sandstone oil production from Concession 53 was 1,358 BOPD in the first quarter of 2012 as a result of the L53D East field discovery and production from the L53-DST3 and L53-D2ST3 wells. Oil production of 520 BOPD in the second quarter of 2012 was impacted by the shut-in of L53-D2 well on April 17th at the end of its 90 production testing period and the L53-DST3 well being shut in during the majority of the quarter awaiting the service rig. Concession L53 oil sales for the first six months of 2012 averaged 939 BOPD with funds flow from operations of $15.7 million (or $91.79 per barrel).
    - July oil sales at Concession L53 were 1,046 BOPD and the L53-DST3 well was shut-in during the last week of July when it completed the initial 90 day testing period. The L53D production license was granted July 30th with an area of 11.98 square kilometers but the Company is still awaiting the associated environmental approval. A 90 day extension for the testing period for wells in the L53D East field was also received on July 30th and current oil production is about 1,150 BOPD with approximately 350 BOPD shut-in until August 25th due to water disposal limitations.
    - A 3D seismic survey has been completed over the unexplored northeast portion of Concession L53 and initial interpretation of the preliminary processing has confirmed the presence of the prospect which had been identified on the old vintage, sparsely spaced 2D seismic data.
    - There are four firm development wells and one water disposal well planned for the remainder of 2012 for approximately $8 million. The drilling of two exploration wells in the new 3D area, with incremental capital of $3 million, is expected in the first quarter of 2013.
- Active exploration programs at all four Production Sharing Contracts ("PSC's") in Indonesia:
    - At the Citarum PSC (Pan Orient operator & 77% ownership) there are three exploration wells to be drilled in 2012 for approximately $23.7 million. The Jatayu #1 well currently drilling and the Geulis-1 and Cataka-1A wells will follow immediately thereafter. The increase of $8.1 million in the forecast from the earlier estimated $16.6 million provides for the potential re-drilling of the Jatayu-1 well if required, which has yet to be determined.
    - At the Batu Gajah PSC (Pan Orient operator & 97% ownership) land access agreements are being finalized with the surface rights holder. The drilling of two exploration wells is expected for late 2012 or early 2013 at a combined cost of $10 million, and a 400 square kilometer 3D seismic program is planned in late 2012 for $15.5 million. Total go forward capital is estimated at $25.5 million.
    - At the South CPP PSC (Pan Orient operator & 97% ownership) a 250 line kilometer 2D seismic program and one exploration well are planned for 2012 / 2013 for approximately $7 million.
    - At the East Jabung PSC (Pan Orient operator & 100% ownership) a 440 line kilometer 2D seismic program and two exploration wells are planned for 2012 / 2013 for approximately US$17 million.
- On August 10, 2012 Pan Orient increased its ownership of Andora Energy Corporation ("Andora") to 71.8% through an additional $24.7 million investment in Andora pursuant to a rights offering by Andora. Proceeds from the rights offering will be used for the procurement and construction of a thermal facility, drilling of one horizontal well pair, and operations in respect of its Sawn Lake Steam Assisted Gravity Drainage ("SAGD") development project at an estimated cost, including operating costs, of $23.5 million. Additionally, Andora acquired a private company in July which provides Andora with proprietary thermal facility design / process capabilities and expands the Andora team with thermal facility design and operating specialists.

2012 SECOND QUARTER OPERATING RESULTS

- On June 15, 2012 Pan Orient completed the sale of subsidiaries which held Pan Orient's 60% interest in Thailand Concessions L44, L33 and SW1 for a cash price of $185.3 million. This resulted in net proceeds of $158.0 million after deducting $11.2 million of transaction costs and $16.1 million of estimated income tax associated with the transaction. The carrying value of the assets and liabilities of the subsidiaries sold was $80.6 million, resulting in net income after tax attributable to common shareholders of $77.3 million.

  The financial and operating results in Thailand include revenue, expenses and capital expenditures of the subsidiaries sold, and the interests in Thailand Concessions L44, L33 and SW1, until June 14, 2012.

- Pan Orient had total corporate funds flow from operations of $25.6 million ($0.45 per share) for the first half of 2012 compared to $25.6 million ($0.48 per share) for the first half of 2011.

  Funds flow from operations for the second quarter of 2012 was $7.0 million ($0.12 per share) compared to $18.7 million ($0.33 per share) for the first quarter of 2012 and $13.3 million ($0.23 per share) for the second quarter of 2011. The reduction in funds flow from operations in the second quarter of 2012 compared to the first quarter of 2012 is primarily due to the lower oil production.

- Net income attributable to common shareholders of $87.4 million ($1.54 per share) for the first half of 2012 and $79.3 million ($1.40 per share) for the second quarter of 2012 was driven by the $77.3 million after tax gain on the Thailand disposition transaction. This compared with net income attributable to common shareholders of $8.5 million ($0.16 per share) for the first half of 2011 and $4.6 million ($0.08 per share) for the second quarter of 2011.

- Total capital programs for the first half of 2012 were $45.5 million, with $26.8 million in Thailand for development of the L53-D East field, the L53-G exploration well and the drilling of five gross wells in Concessions L44 and SW1, $18.5 million in Indonesia mainly for exploration activities in the Citarum PSC with drilling at Cataka#1 and Jatayu #1, and $0.2 million in Canada. Capital expenditures in Thailand were funded by Thailand funds flow from operations and the capital programs in Indonesia and Canada were funded from working capital.

  Capital expenditures were $24.0 million in the second quarter of 2012 with $13.2 million in Thailand and $10.7 million in Indonesia primarily at the Citarum PSC exploration program for drilling costs of the Jatayu #1 well and site preparation for the Geulis #1 and Cataka #1A wells.

- **Thailand**

  - Oil sales in Thailand for the second quarter of 2012 averaged 1,318 BOPD with 520 BOPD from Concession L53, 581 BOPD from Concession L44, 33 BOPD from Concession L33, and 184 BOPD from Concession SW1. The reduction in oil sales compared to first quarter 2012 oil sales of 2,541 BOPD is primarily the result of temporarily shut-in production at Concession L53, approximately 280 BOPD of production temporarily shut-in in mid-May at Concession L44 awaiting approval for long term use on surface lands held by the Agricultural Land Reform Office (ALRO) of the Government of Thailand, and the sale of Pan Orient's interests in Concessions L44, L33 and SW1 on June 15, 2012.

  - In the first half of 2012 Concession L53 averaged oil sales of 939 BOPD and generated $15.7 million in after tax funds flow from operations, or $91.79 per barrel. On a per barrel basis, this represents oil sales of $109.03, transportation expenses of $1.35, operating expenses of $6.68, general and administrative expenses of $3.77 and amounts to the Thailand government of $5.43. Oil sales during this period were allocated 11% to expenses for transportation, operating, and general & administrative, 5% to the government of Thailand in the form of royalties and minor amount of income tax, and 84% to Pan Orient. Minimal Thailand income tax has been recorded for the first half of 2012 for Concession L53, and at June 30, 2012 there are approximately $23 million of income tax cost pools and losses which can be used in future periods.

  - Capital expenditures in the first six months of 2012 were $26.8 million in Thailand primarily with $16.3 million at Concession L53 and $10.5 million at Concessions L44, L33 and SW1 which were sold June 15, 2012. Capital expenditures of $13.2 million in the second quarter of 2012 were focused on Concession L53 with the seismic program and continued drilling activity at the new L53-D East field. Drilling activity at the L53-D East field in the second quarter included three sidetracks drilled off of the original L53-D2 wellbore which had been spudded in December 2011 and brought into production in January 2012, and which had reached the end of its 90 day production test after production of 41,171 barrels of oil. The L53-D2ST1 well targeted untested deep sands within fault block "C" which proved water bearing. The L53-D2ST2 well into fault compartment "B" was unsuccessful. The L53-D2ST3 well is producing oil within the previously proven "A" fault compartment from new sandstone intervals with approximately 65 meters of net oil pay.

- **Indonesia**

  - Capital expenditures in Indonesia during the first half of 2012 have been $18.5 million, with of $17.4 million at the Citarum PSC (Pan Orient operator and 77% ownership), $0.4 million at the Batu Gajah PSC (Pan Orient operator and 97% ownership), $0.1 million at the South CPP PSC (Pan Orient operator and 97% ownership) and $0.6 million at the East Jabung PSC (Pan Orient operator and 100% ownership).

  - At the Citarum PSC on-shore Java, Pan Orient commenced the exploration drilling program at the end of December 2011 with the Cataka-1 well. Capital expenditures of $17.4 million in the first half of 2012 include $4.7 million for the Cataka-1 well, $10.3 million for the Jatayu-1 well, $2.0 million for site preparation at the Geulis-1 and Cataka-1A well sites and $0.4 million for capitalized exploration overhead and other costs. Difficult drilling has been experienced to date in this complex fold belt environment and a number of initiatives have been implemented with regard to personnel and the present / future well design.

    - The Cataka-1 exploration well commenced drilling on December 31, 2011. The well encountered severe drilling difficulties and the decision was made in February 2012 to junk and abandon the well at a depth of approximately 400 meters true vertical depth, 1,500 meters above the primary reservoir objective. The primary reservoir objective of the well, at approximately 1,900 meters depth, had not been penetrated. Upon the completion of the Jatayu-1 and Geulis-1 wells drilling will commence on the re-drill of the Cataka prospect (with the Cataka-1A well) incorporating a redesigned well plan incorporating the information gathered from the original well.

    - The Jatayu-1 exploration well commenced drilling March 21, 2012 towards a primary reservoir objective target depth of 7,382 feet. At 6,156 feet the pipe became stuck after a drilling break and the well was plugged back at 4,700 feet and drilled vertically to avoid the issues associated with the initial directional / deviated hole. While conducting a wiper trip from 5,920 feet the drill string became stuck and was backed off to 5,300 feet. While drilling at a depth of 6,173 feet at the end of June severe lost circulation was encountered and a cement plug was set in an attempt to cure drilling fluid losses.

OUTLOOK

- Indonesia

  - Citarum PSC (Pan Orient Operator and 77% Working Interest)

    Jatayu-1 Exploration Well

    Since the operations update of July 25th, the well was drilled through the first loss zone at 6,173 feet to a depth of 6,330 feet where total drilling fluid losses were once again encountered resulting in heavily gasified mud resulting in a four meter gas flare when the mud was run through a separator at surface. A cement plug was run to cure the losses and was drilled out to 6,329 feet where losses were once again encountered and the decision was made to run wireline logs and pressure points, which were run successfully. A preliminary interpretation of the wireline logs and pressure data collected over the interval of interest was unable to confirm the presence of gas pay.

    Two further attempts were made to drill through the loss zone at 6,330 feet with a maximum depth of 6,346 feet achieved before once again having to set a cement plug in an attempt to deal with the drilling fluid losses. Presently, one last cement plug has been set and the well is currently drilling cement just above the loss zone. In the event that the drilling fluid losses that are unable to be controlled are experience in this latest attempt, the well will be suspended and the rig will mobilize to the Geulis-1 location with that well anticipated to spud in the next three to four weeks.

  - Batu Gajah PSC (Pan Orient Operator and 97% Working Interest)

    Negotiations are currently focused on the final draft access agreements. It is expected that these agreements will be finalized within the next two weeks, allowing for the drilling of two wells and the acquisition of 3D seismic to commence prior to year-end 2012. In the event that final agreements are unable to be agreed between Pan Orient and the Indonesian forestry company within two weeks, the start of operations will be delayed to the end of the first quarter of 2013 due to the rainy season.

  - East Jabung PSC (Pan Orient Operator and 97% Working Interest)

    A 2D seismic acquisition program is anticipated to commence in mid-March 2013 as the permitting for the program will not be completed until December 2012 and the end of the rainy season is typically in early March.

  - South CPP PSC (Pan Orient Operator and 100% Working Interest)

    A 2D seismic acquisition program at the South CPP PSC is expected to commence in October 2012 with the drilling of one exploration well planned for the first half of 2013.

- Thailand - Concession L53 (Pan Orient Operator and 100% Working Interest)

  A 20 year production license has been granted over the L53-D East oil discovery. The production Environmental Impact Assessment for this production license and related development well drilling locations was not approved at early August meeting of the environmental regulatory organization and the second hearing is expected to take place in mid-September. Regardless of the outcome of the mid-September meeting, construction of drilling locations cannot take place until the end of the annual monsoon season which typically ends in late October each year. With a construction time of approximately one month per well pad, the drilling of four development wells is not anticipated to commence in Concession L53 until December 2012 with exploration drilling on the newly acquired 3D seismic survey likely to take place late in the first quarter of 2013.

- Canada - Sawn Lake (Operated by Andora, in which Pan Orient has a 71.8% ownership)

  Activities are currently underway to commence steam injection at the Sawn Lake SAGD demonstration project in the second quarter of 2013, and production anticipated in the fourth quarter of 2013.

Financial and Operating Summary	Three Months Ended June 30,		Six Months Ended June 30,		
(thousands of Canadian dollars except where indicated)	**2012**	2011	**2012**	2011	Change
FINANCIAL					
Oil revenue, before royalties and transportation expense	**12,502**	18,521	**38,156**	36,970	3%
Funds flow from operations (Note 1)	**6,966**	13,283	**25,634**	25,644	0%
Per share – basic	**$ 0.12**	$ 0.23	**$ 0.45**	$ 0.48	-6%
Funds flow from operations by region (Note 1)					
Canada	**(769)**	19	**(989)**	(405)	144%
Thailand (Note 2)	**7,790**	13,494	**26,744**	26,353	1%
Indonesia	**(55)**	(231)	**(121)**	(304)	-60%
Total	**6,966**	13,282	**25,634**	25,644	0%
Funds flow – Thailand disposition net proceeds (Note 2)	**157,952**		**157,952**		
Net income attributable to common shareholders	**79,285**	4,608	**87,409**	8,536	924%
Per share – basic	**$ 1.40**	$ 0.08	**$ 1.54**	$ 0.16	864%
Working capital	**180,775**	56,686	**180,775**	56,686	219%
Working capital & non-current deposits	**184,536**	60,469	**184,536**	60,469	205%
Long-term debt	**-**	-	**-**	-	
Petroleum & natural gas properties (excluding disposition)					
Capital expenditures (Note 3)	**23,980**	22,495	**45,451**	42,467	7%
Acquisitions – Indonesia (Note 4)	**-**	(19)	**-**	1,761	-100%
Acquisitions – Sawn Lake, Canada (Note 7)	**-**	-	**-**	3,192	-100%
Shares outstanding (thousands)	**56,685**	56,685	**56,685**	56,685	0%
Funds Flow from Operations per Barrel (Note 1)					
Canada operations	**$ (6.41)**	$ 0.10	**$ (2.82)**	$ (1.04)	171%
Thailand operations (Note 2)	**64.94**	72.27	**76.16**	67.76	12%
Indonesia operations	**(0.46)**	(1.24)	**(0.34)**	(0.78)	-56%
	$ 58.06	$ 71.14	**$ 73.00**	$ 65.94	11%
Capital Expenditures (Note 2)					
Canada	**131**	147	**174**	214	-19%
Thailand (Note 2)	**13,156**	13,345	**26,769**	27,759	-4%
Indonesia	**10,693**	9,003	**18,508**	14,494	28%
Total	**23,980**	22,495	**45,451**	42,467	7%
Working Capital and Non-current Deposits					
Working capital & non-current deposits - beginning	**48,501**	69,166	**51,632**	31,396	64%
Funds flow from operations (Note 1)	**6,966**	13,283	**25,634**	25,644	0%
Thailand disposition net proceeds (Note 2)	**157,952**	-	**157,952**	-	
Thailand disposition – sale of working capital (Note 2)	**(4,591)**	-	**(4,591)**	-	
Capital expenditures (Note 3)	**(23,980)**	(22,495)	**(45,451)**	(42,467)	7%
Acquisitions – Indonesia (Note 5)	**-**	19	**-**	(1,417)	-100%
Foreign exchange impact on working capital	**(312)**	10	**(640)**	(303)	-214%
Net proceeds on share transactions	**-**	486	**-**	47,616	-100%
Working capital & non-current deposits - end of period	**184,536**	60,469	**184,536**	60,469	205%
Canada Operations (excluding Thailand disposition)					
Interest income	**68**	139	**137**	160	-15%
General and administrative expense (Note 5)	**(1,061)**	(43)	**(1,317)**	(306)	330%
Realized foreign exchange gain (loss)	**224**	(77)	**191**	(259)	-174%
Foreign new ventures expenditures	**-**	-	**-**	-	
Funds flow from operations (Note 1)	**(769)**	19	**(989)**	(405)	144%
Funds flow from operations per barrel					
Interest income	**$ 0.56**	$ 0.75	**$ 0.39**	$ 0.41	-5%
General and administrative expense (Note 5)	**(8.84)**	(0.23)	**(3.75)**	(0.79)	375%
Realized foreign exchange gain (loss)	**1.87**	(0.41)	**0.54**	(0.67)	-181%
	$ (6.41)	$ 0.10	**$ (2.82)**	$ (1.04)	171%
Indonesia Operations					
General and administrative expense (Note 5)	**(55)**	(231)	**(121)**	(304)	-60%
Foreign new ventures expenditures	**-**	-	**-**	-	
	(55)	(231)	**(121)**	(304)	-60%
Wells drilled Gross	**-**	1	**1**	2	-50%
Net	**-**	1.0	**0.8**	2.0	-60%

(thousands of Canadian dollars except where indicated)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011	Change
THAILAND OPERATIONS (Note 2)					
Oil sales (bbls)	**119,970**	186,727	**351,158**	388,894	-10%
Average daily oil sales (bbls/d) by Concession					
L44 (interests sold June 15, 2012)	**581**	1,289	**780**	1,394	-44%
SW1 (interests sold June 15, 2012)	**184**	103	**171**	112	54%
L33 (interests sold June 15, 2012)	**33**	155	**39**	183	-79%
L53	**520**	505	**939**	460	104%
Total	**1,318**	2,052	**1,929**	2,149	-10%
Average oil sales price, before transportation (CDN$/bbl)	**$ 104.21**	$ 99.19	**$ 108.66**	$ 95.06	14%
Reference Price (volume weighted) and differential					
Crude oil (Brent $US/bbl)	**$ 111.35**	$ 117.31	**$ 116.32**	$ 111.22	5%
Exchange Rate $US/$Cdn	**1.01**	0.98	**1.01**	0.99	3%
Crude oil (Brent $Cdn/bbl)	**$ 111.94**	$ 114.96	**$ 117.97**	$ 109.74	8%
Sale price / Brent $Cdn reference price	**93%**	86%	**92%**	87%	5%
Funds flow from operations (Note 1)					
Crude oil sales	**12,502**	18,521	**38,156**	36,970	3%
Government royalty	**(619)**	(927)	**(1,892)**	(1,883)	0%
Other royalty	**-**	(40)	**(49)**	(85)	-42%
Transportation expense	**(249)**	(407)	**(693)**	(876)	-21%
Operating expense	**(1,761)**	(2,397)	**(3,887)**	(4,534)	-14%
	9,873	14,750	**31,635**	29,592	7%
General and administrative expense (Note 6)	**(603)**	(634)	**(1,524)**	(1,626)	-6%
Interest income	**30**	41	**39**	58	-32%
Special Remuneratory Benefit tax (SRB)	**-**	23	**-**	-	0%
Current income tax	**(1,510)**	(686)	**(3,406)**	(1,671)	104%
Funds flow from operations	**7,790**	13,494	**26,744**	26,353	1%
Funds flow from operations / barrel (CDN$/bbl) (Note 1)					
Crude oil sales	**$ 104.21**	$ 99.19	**$ 108.66**	$ 95.06	14%
Government royalty	**(5.16)**	(4.96)	**(5.39)**	(4.84)	11%
Other royalty	**-**	(0.21)	**(0.14)**	(0.22)	-37%
Transportation expense	**(2.08)**	(2.18)	**(1.97)**	(2.25)	-12%
Operating expense	**(14.68)**	(12.84)	**(11.07)**	(11.66)	-5%
	82.30	78.99	**90.09**	76.09	18%
General and administrative expense (Note 6)	**(5.03)**	(3.39)	**(4.34)**	(4.18)	4%
Interest Income	**0.25**	0.22	**0.11**	0.15	-25%
Special Remuneratory Benefit (SRB)	**-**	0.12	**-**	-	0%
Current income tax	**(12.59)**	(3.67)	**(9.70)**	(4.30)	126%
Thailand - Funds flow from operations	**$ 64.94**	$ 72.27	**$ 76.16**	$ 67.76	12%
Government royalty as percentage of crude oil sales	**5.0%**	5.0%	**5.0%**	5.2%	-0.2%
SRB as percentage of crude oil sales	**0.0%**	-0.1%	**0.0%**	0.0%	0.0%
Income tax as percentage of crude oil sales	**12.1%**	3.7%	**8.9%**	4.5%	4.4%
As percentage of crude oil sales					
Expenses - transportation, operating, G&A and other	**21%**	18.8%	**16%**	19.2%	-3%
Government royalty, SRB and income tax	**17%**	8.6%	**14%**	9.7%	4%
Funds flow from operations, before interest income and realized foreign exchange gain	**62%**	72.6%	**70%**	71.1%	-1%
Wells drilled					
Gross	**1**	9	**7**	15	-53%
Net	**0.6**	6.6	**5.0**	11.0	-55%
Thailand Concession L53					
Funds flow from operations (Note 1)	**3,824**	3,482	**15,685**	6,235	152%
Funds flow from operations / barrel (CDN$/bbl)	**$ 80.78**	$ 75.77	**$ 91.79**	$ 74.88	23%

(1) Funds flow from operations ("funds flow" before changes in non-cash working capital and reclamation costs) is used by management to analyze operating performance and leverage. Funds flow as presented does not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures of other entities. Funds flow is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS.

(2) Thailand Concessions SW1, L44 and L33 were sold on June 15, 2012. Proceeds of $185.3 million less transaction costs of $11.2 million and estimated tax of $16.1 million results in proceeds net of expenses of $158.0 million. After deducting $80.6 million related to the carrying value of petroleum and equipment, exploration and evaluation costs, and working capital sold (including the elimination of the associated deferred tax liabilities, employee pension liabilities, and decommissioning provision). The net gain on sale is $93.4 million before tax and $77.3 million net after tax. The 2012 financial statements and operating results include revenue, expenses and capital expenditures associated with these properties to June 14, 2012.

(3) Cost of capital expenditures, excluding any decommissioning provision and excluding the impact of changes in foreign exchange rates.

(4) Cost of acquisitions, including deemed value of equity issued in the transaction.

(5) Cost of acquisitions, excluding deemed value of equity issued in the transaction.

(6) General & administrative expenses, excluding non-cash accretion on decommissioning provision.

(7) The acquisition transaction was reversed in the fourth quarter of 2011.

Revenue and Production

Petroleum revenue for the three months ended June 30, 2012 was $12.5 million, compared to $18.5 million for the second quarter of 2011 and $25.7 million reported in the first quarter of 2012. Average daily oil sales of 1,318 BOPD in the current period was 36% lower than the second quarter of 2011 and 48% lower than the first quarter of 2012 primarily the result of temporarily shut-in production at Concession L53, approximately 280 BOPD of production temporarily shut-in in mid-May at Concession L44 awaiting approval for long term use on surface lands held by the Agricultural Land Reform Office (ALRO) of the Government of Thailand, and the sale of Pan Orient's interest in Concession L44, L33 and SW1 on June 15, 2012.

The Company's average realized price for its production was $104.21/bbl for the three months ended June 30, 2012, representing an increase of 5% over the same period of 2011. The Company's realized sales price has historically been in the range of 85% to 95% of the Brent reference price, with the discount attributed to the high paraffin content of the petroleum. For the three months ended June 30, 2012 the Company's realized price was 93% of the Brent reference price due to the strength of oil product prices in Singapore which determine the price according to Pan Orient's oil sales contracts.

Royalties

The Company paid two types of royalties: 1) to the Thai government on all production volumes; and 2) an 8% gross overriding royalty ("GORR") applied to certain wells in SW1. The GORR is payable on less than 1% of the Company's revenue and does not have a significant impact on the royalty rate. The royalty rate paid to the Thai government is based on a sliding scale, ranging from 5% on production of less than 2,000 BOPD to 15% on production in excess of 20,000 BOPD per concession.

Total royalties of $0.6 million for the three months ended June 30, 2012 were 36% lower than the $1.0 million reported in the comparable quarter of 2011, and the decrease was attributed to lower oil volumes and revenues and elimination of the 8% gross overriding royalty ("GORR") in SW1 effective April 1, 2012 . The average Thai government royalty rate for the second quarter of 2012 was 5.0% which was relatively consistent with the royalty rate reported in the second quarter of 2011.

Production Expenses

Transportation expenses represent the cost to truck the Company's Thailand oil production to the refinery in Bangkok. The Company is charged a contracted rate based on the number of tankers and trips required; and both factors are driven by production volumes. As a result, costs on a per barrel basis are generally consistent from one period to the next. Transportation expense was $2.08/bbl for the three months ended June 30, 2012 compared to $2.18/bbl in the same quarter in 2011. Oil trucked from Concession L53 benefits from a lower contracted rate with its proximity to the Bangkok refinery compared to the other three concessions and had averaged $1.35 per barrel for the first six months of 2012.

Operating expenses for the second quarter of 2012 were $1.8 million compared to $2.1 million in the first quarter of 2012 and $2.4 million in the second quarter of 2011. Operating expenses of $14.68/bbl for the second quarter of 2012 were higher than $12.84/bbl in the second quarter of 2011 and considerably higher than the $9.20/bbl reported in the first quarter of 2012 due to a reduction in production volumes. A significant portion of the Company's operating expenses is fixed based on the number of wells and the geographical proximity of the wells. Therefore, a decline in production does not necessarily reduce operating expenses significantly.

Depletion and Depreciation (D&A)

($000s)	As at and for the Three Months Ended June 30 2012	2011	As at and for the Six Months Ended June 30 2012	2011
Depletion of Thailand PP&E- $000s	**2,251**	1,832	**6,584**	3,594
Depreciation of office equipment & assets - $000s	**74**	117	**138**	217
Total D&A - $000s	**2,325**	1,949	**6,722**	3,811
Total D&A - $/bbl	**19.38**	10.44	**19.14**	9.8

As the Company's Canadian and Indonesian assets are in the pre-production phase, depletion is not calculated for these cost centres.

Costs subject to depletion included $6.1 million (2011 - $71.2 million) of estimated future development costs for proved plus probable reserves. The decrease was attributable to the sale of Thai assets.

Taxes

($000s)	As at and for the Three Months Ended June 30 2012	2011	As at and for the Six Months Ended June 30 2012	2011
Special remuneratory benefit	**-**	(23)	**-**	-
Income tax	**17,599**	686	**19,495**	1,671
Total current tax expense	**17,599**	663	**19,495**	1,671
Deferred tax expense	**2,427**	6,102	**8,166**	11,531
Total tax expense	**20,026**	6,765	**27,661**	13,202

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

SRB is a tax at sliding scale rates of 0 - 75% applied on a concession-by-concession basis to petroleum profits as defined in Thai tax legislation which includes deductions for expenses and capital spent. The rate is principally determined by revenue for the concession (production and pricing) but is subject to other adjustments such as changes in Thailand's consumer and wholesale price indices and cumulative metres drilled on the concession. For 2012 oil sales at L53 in 2011 the Company continues to utilize its SRB loss carry forward deductions to shelter SRB taxes and because of the numerous factors involved in the SRB calculation it is uncertain when SRB will be payable on the concession.

Income tax is 50% of taxable income which is calculated based on funds flow from operations less capital expenditures (deductible at varying rates), SRB, and other permitted deductions.

Because of the deductions allowed for capital spent, the effective rates of these taxes can vary significantly from the actual tax rates. For the six months ended June 30, 2012 SRB was 0.0% (2011: 0%) of total revenue and income tax from operations was 9.0% (2011 – 5%) of total revenue.

At June 30, 2012 the Company had a tax payable of $16.1 million mainly attributed to the estimated current income tax provision associated with the sale of Thai assets.

General and Administrative (G&A) Expenses

	As at and for the Three Months Ended June 30 2012	2011	As at and for the Six Months Ended June 30 2012	2011
Thailand	**706**	759	**1,748**	1,877
Indonesia	**865**	879	**1,604**	1,581
Canada	**1,093**	82	**1,380**	386
Total G&A, net of overhead recoveries	**2,664**	1,720	**4,732**	3,844
Allocated to capital projects	**(945)**	(812)	**(1,770)**	(1,608)
Cash G&A	**1,719**	908	**2,962**	2,236
Accretion on decommissioning provision	**76**	90	**156**	177
Total G&A	**1,795**	998	**3,118**	2,413
Cash G&A - $/bbl	**14.33**	4.86	**8.44**	5.75
Total G&A - $/bbl	**14.96**	5.35	**8.88**	6.21

Overhead recoveries represent the portion of Pan Orient's G&A expenses charged to working interest partners with respect to the Company's operated properties. With the sale of Pan Orient's operated interests in Thailand Concessions L44, L33 and SW1 on June 15, 2012, the amount of overhead recoveries in future periods will be reduced. In the first six months of 2012 Pan Orient received approximately $342,000 in overhead recoveries from the operations sold June 15th.

Capitalized G&A allocated to capital projects represents compensation and other costs associated with property acquisition, exploration and development activities. Capitalized G&A in the current period relates to exploration and development activities on the L44, L33 and L53 Concessions in Thailand, all four of the Indonesia PSCs and the Company's heavy oil development project in Canada. Amounts capitalized reflect the nature of the Company's capital activities and are reassessed in each reporting period.

Total G&A of $1.8 million for the three months ended June 30, 2012 were higher than the $1.0 million reported in the comparable quarter of 2011. This increase reflects higher corporate and staffing expenses in Canada.

Capital Invested

	Six Months Ended June 30			
	2012		2011	
	$000s	Net wells drilled	$000s	Net wells drilled
Capital expenditures				
Thailand	**26,769**	**5.0**	27,759	11.0
Indonesia	**18,508**	**0.8**	14,494	2.0
Canada	**174**	**-**	214	-
Total capital expenditures	**45,451**	**5.8**	42,467	13.0
Indonesia acquisition expenditures - cash	**-**	**-**	1,417	
Capital and acquisition expenditures – cash	**45,451**	**5.8**	43,884	13.0
Indonesia acquisition – non cash	**-**	**-**	344	-
Sawn Lake acquisition – non cash	**-**	**-**	3,192	-
Total capital invested	**45,451**	**5.8**	47,420	13.0

(1) Excluding foreign exchange and decommissioning liabilities

Liquidity and Capital Resources

Liquidity

Pan Orient's capital program for the 3 months ended June 30, 2012 was financed with funds generated from operating activities, the remainder from existing working capital and proceeds received from the sale of the Thai assets. Thailand funds flow of $7.8 million financed 59% of the country's capital program for the 3 months ended June 30, 2012. Pan Orient's working capital position is forecasted regularly and the Company plans to fund future capital expenditures and commitments with existing cash balances, equipment inventory and expected cash flows from Thailand operations.

At June 30, 2012 Pan Orient's cash and cash equivalents of $189 million, compared to $47.9 million at March 31, 2012, were held in the jurisdictions where the Company operates as follows:

($000s)	As at June 30, 2012	As at March 31, 2012	As at December 31, 2011
Cash held in Canada	**179,734**	27,595	37,232
Cash held in Thailand	**4,204**	15,699	11,893
Cash held in Indonesia	**4,991**	4,587	3,282
Total cash excluding restricted cash	**188,929**	47,881	52,407
Restricted cash(1)	**-**	8,492	-
Total cash	**188,929**	56,373	52,407

1) Restricted cash related to the sale of the Thai assets at March 31, 2012. A USD $8.5 million deposit was paid on behalf of the purchaser and applied against the purchase price at closing.

Working capital plus non-current cash deposits at June 30, 2012 was $184.5 million compared to $48.5 million at March 31, 2012. The increase was attributable to the proceeds received from the sale of the Thai assets.

Long term accounts receivable of $3.1 million at June 30, 2012 relates to funds held in escrow on the sale of Thai assets to support any warranty claims until December 15, 2013 and has been classified as long term.

Non-current cash deposits of $0.7 million at June 30, 2012 relate to guarantees to the Thailand and Indonesia governments for the Company's work commitments and customs importation permits in Thailand.

At June 30, 2012, Pan Orient held $4.9 million in equipment inventory to be utilized for future Thailand and Indonesia operations. The equipment inventory is included in exploration and evaluation costs in the statement of financial position.

Share Capital

Common Shares Outstanding at period-end (000s)	August 21, 2012	June 30, 2012
Common shares	56,685	56,685
Stock options	3,917	3,867
Total	60,602	60,552

Foreign Exchange

The Company's reporting currency is the Canadian dollar and its functional currencies are the Canadian dollar, the Thai baht and the US dollar. Each reporting period, the changes in the values of the Thai baht and U.S. dollar relative to the Company's reporting currency must be recognized. The period end rates used to translate the Company's Thai baht and U.S. dollar denominated financial statement items for the reporting periods as specified were as follows:

	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Rate at end of period								
Thai baht / CAD $ exchange	**30.55**	30.59	30.69	29.63	31.38	30.84	29.80	29.10
U.S. dollar / CAD $ exchange	**1.02**	0.999	1.02	1.04	0.968	0.971	1.001	1.034

A fundamental aspect of the Company's treasury function is mitigating the effect of foreign currency exchange fluctuations to the extent possible and to accomplish this surplus funds are expatriated to Canada to be held in Canadian dollars. An appropriate cushion of Thai baht is held in Thailand to satisfy payments in that currency as they come due, the most significant of which are the Company's SRB and taxes. All unrealized amounts were recorded in accumulated other comprehensive income (AOCI) on the balance sheet as follows:

	As at and for the Three Months Ended June 30		As at and for the Six Months Ended June 30	
($000s)	2012	2011	2012	2011
AOCI balance at beginning of period	**(198)**	(3,209)	**887**	2,915
Foreign currency translation loss	**(497)**	(2,300)	**(1,582)**	(8,424)
AOCI balance at end of period	**(695)**	(5,509)	**(695)**	(5,509)

The unrealized foreign currency translation (loss) gain was comprised of the following:

	As at and for the Three Months Ended June 30		As at and for the Six Months Ended June 30	
($000s)	2012	2011	2012	2011
Foreign exchange (loss) gain related to Thailand	**(52)**	(2,676)	**446**	(7,153)
Foreign exchange gain (loss) related to Indonesia	**2,410**	376	**827**	(1,271)
Impact on AOCI from disposal of Thai assets	**(2,855)**	-	**(2,855)**	-
Foreign currency translation loss	**(497)**	(2,300)	**(1,582)**	(8,424)

Summary of Quarterly Results

	2012		2011				2010(1)	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Production (BOPD)	**1,318**	2,541	1,826	2,000	2,052	2,246	4,056	4,211
Per Unit information ($/bbl)								
Realized oil price	**104.21**	110.97	104.29	98.29	99.19	91.26	76.36	69.82
Royalties	**(5.16)**	(5.72)	(5.56)	(5.14)	(5.18)	(4.95)	(4.99)	(4.52)
Transportation & operating	**(16.75)**	(11.12)	(19.69)	(14.74)	(15.02)	(12.89)	(10.46)	(8.96)
Field Netback	**82.30**	94.13	79.04	78.41	78.99	73.41	60.91	56.34
Financial ($000's) except as indicated								
Oil revenue	**12,502**	25,654	17,523	18,083	18,521	18,449	28,495	27,050
Interest revenue	**98**	78	118	115	180	38	32	20
Net income(2)	**79,285**	8,124	11,573	3,882	4,608	3,928	9,835	5,403
Per share basic ($)	**1.40**	0.14	0.21	0.07	0.08	0.08	0.20	0.11
Per share diluted ($)	**1.40**	0.14	0.21	0.07	0.08	0.08	0.20	0.11
Capital expenditures(3)	**23,981**	21,471	13,065	15,364	22,495	19,972	13,638	11,012
Total assets	**419,313**	396,468	371,276	371,964	349,597	350,589	296,709	281,530
Shares outstanding (000s)	**56,685**	56,685	56,685	56,685	56,685	56,544	48,741	48,619

(1) Amounts are stated in accordance with Canadian Generally Accepted Accounting Principles prior to the conversion to IFRS.
(2) Net income attributed to common shareholders
(3) Excluding decommissioning liabilities and acquisition costs

Q3 2010 – Funds flow from operations of $15.4 million exceeded the previous quarter's funds flow by $2.0 million and also exceeded capital expenditures for the quarter by $4.4 million. Third quarter production of 4,211 BOPD was 763 BOPD or 22% higher than the volumes reported in the second quarter. Increased revenue from the additional production volumes was slightly offset by a lower realized sales price and higher operating expenses resulting in a field netback of $56.34/bbl compared to $58.33/bbl in the second quarter. Operating expenses per barrel were impacted by significant costs related to Concession L53 and only a small amount production to allocate these costs to. During the quarter the Company had discoveries in the WBEXT field in Concession L44 and the L33-1 / L33-2 Fields in Concession L33. A production license application for the WBEXT field is currently with the Thailand Department of Mineral Fuels, however, under a 90-day production test the new wells in WBEXT contributed 1,729 BOPD for the third quarter. Commercial production of the previous discovery at L53-A commenced upon receipt of the production license in August. Net income attributed to common shareholders of $5.4 million for the quarter ($1.2 million higher than second quarter) reflected higher funds flow offset by higher DD&A expense, SRB and future income tax. At September 30, 2010 working capital plus deposits was $27.7 million, an increase of $3.7 million over June 30, 2010, and the Company had no long-term debt.

Q4 2010 – The Company reported funds flow from operations of $17.8 million, an increase of $2.4 million over the previous quarter and $7.9 million higher than the fourth quarter of 2009. Compared to the most recent quarter, revenue was $1.5 million higher as a result of an increase in the realized oil price and current taxes were $1.4 million lower. The Company's capital program in Thailand had capital expenditures of $11.7 million and focused on exploration and appraisal drilling in the WBEXT field in Concession L44. In Indonesia, capital expenditures of $1.6 million related to drilling on Batu Gajah which commenced in March 2011 and capitalized G&A. Funds flow from operations exceeded capital expenditures by $4.2 million resulting in working capital plus deposits of $31.5 million, an increase of $3.8 million over the previous quarter. Net income attributed to common shareholders of $9.8 million ($0.20 per share on a diluted basis) was $4.9 million higher than the third quarter, impacted by higher depletion expense and lower future income tax expense.

Q1 2011 – Funds flow from operations for the first quarter was $12.4 million compared to $17.8 million in the fourth quarter of 2010, the reduction primarily a result of reduced revenues attributed to lower production volumes. Average daily oil sales for the period was 2,246 BOPD, a 45% decrease from the fourth quarter of 2010. Oil sales in Concession L44 declined during the first quarter of as a result of incursion of water at the WBEXT-1C well in early January, wells coming off high initial production rates, and three significant wells being brought back on-stream at reduced rates to minimize the water cut. Oil sales at Concession L53 increased in the first quarter of 2011 with increased production from a workover of the L53-A well and new oil production from the L53-A1 well. On a per barrel basis the Company's funds flow from operations was $61.15 compared to $47.71 in the previous quarter. Funds flow in the first quarter of 2011 benefitted from lower current taxes which were 5.4% as a percentage of crude oil sales compared to 14.2% in the fourth quarter of 2010. Net income attributable to Common Shareholders was $3.9 million ($0.08/share basic) for the quarter versus $8.5 million in the fourth quarter of 2010. The Company drilled 6 (4.4 net) wells in Thailand and 1 (1.0 net) well in Indonesia for total capital expenditures of $20.0 million. Also during the period the Company increased its interests in the three Indonesia PSCs for a total cost of $1.8 million including $0.4 million of Pan Orient shares issued and Andora completed an acquisition for a total cost of $3.2 million in warrants issued to the vendor. During the quarter the Company completed a financing involving the issuance of 7.6 million common shares for net proceeds of $46.6 million. At March 31, 2011, working capital plus non-current deposits was $69.2 million and the Company had no long-term debt.

Q2 2011 – Average daily oil sales for the period was 2,052 BOPD, a 9% decrease from the previous quarter. Funds flow from operations of $13.3 million was a $1.0 million (7%) increase over the first quarter of 2011, predominantly due to higher oil prices and lower taxes. On a per barrel basis this resulted in funds flow from operations of $71.14 in the current period compared to $61.15 in the first quarter of 2011. Current taxes were 3.6% as a percentage of crude oil sales in the second quarter of 2011 compared to 5.4%

in the previous quarter. Net income attributable to Common Shareholders was $4.6 million ($0.08/share basic) for the quarter versus $3.9 million in the first quarter of 2011. The Company drilled 9 (6.6 net) wells in Thailand and 1 (1.0 net) well in Indonesia for total capital expenditures of $22.5 million, including costs related to bidding on the East Jabung PSC in Indonesia which the Company anticipates signing before the end of September with firm three-year commitments of USD $7.7 million. At June 30, 2011, working capital plus non-current deposits was $60.5 million, the cash balance exceeded estimated outstanding commitments (not including East Jabung) by $27.1 million and the Company had no long-term debt.

Q3 2011 – Funds flow from operations of $13.2 million ($71.56/bbl) was relatively consistent with the previous quarter's funds flow of $13.3 million ($71.14/bbl). Third quarter production of 2,000 BOPD was 3% lower than the volumes reported in the second quarter. Net income attributed to common shareholders of $3.9 million for the quarter was $0.7 million less than the second quarter, primarily attributed to higher future income tax. Capital activities for the quarter included 5 (3.0 net) wells in Thailand and in Indonesia, wellsite preparation for upcoming drilling programs on Citarum and Batu Gajah and payment of the signature bonus for the East Jabung PSC, resulting in total expenditures of $15.4 million. At September 30, 2011 the Company had no long-term debt and working capital plus deposits was $58.0 million, which exceeded estimated outstanding commitments of $40.1 million (including East Jabung) by $17.9 million.

Q4 2011 – Funds flow from operations of $7.1 million ($42.02/bbl) was impacted by a 9% reduction in oil production, current Thailand income taxes in the quarter of $4.1 million and increased operating expenses and general and administrative expenses in Thailand partially offset by a 6% increase in the realized price per barrel for oil. Net income attributed to common shareholders of $11.6 million for the quarter reflects a $10.2 million reduction in future tax expense partially offset by higher depletion. Capital expenditures of $13.1 million in the quarter were for the drilling of eight gross (5.2 net) wells in Thailand, wellsite preparation in Indonesia for the three well Citarum drilling program and commencement of drilling the Cataka-1 exploration well (0.8 net well) in Indonesia December 31st. At December 31, 2011 the Company had no long-term debt and working capital plus non-current deposits of $51.6 million, which exceeded estimated outstanding commitments of $45.1 million by $6 million.

Q1 2012 – Funds flow from operations for the first quarter of 2012 was $18.7 million compared with $7.1 million for the fourth quarter of 2011 and $12.4 million for the first quarter of 2011. Funds flow from operations per share was $0.33 for the first quarter of 2012. Net income attributable to common shareholders was $8.1 million, or $0.14 per share, for the first quarter of 2012 compared with net income attributable to common shareholders of $11.6 million, or $0.21 per share, for the fourth quarter of 2011 and $3.9 million, or $0.08 per share, for the first quarter of 2011. Net income attributable to common shareholders for the fourth quarter of 2011 included a $10.3 million reduction in future tax expense. Total capital expenditures for the first quarter of 2012 were $21.5 million, with $13.6 million in Thailand, $7.8 million in Indonesia and $0.1 million in Canada.

Q2 2012 – June 15, 2012 Pan Orient completed the sale of subsidiaries which held Pan Orient's 60% interests in Thailand Concessions L44, L33 and SW1 for proceeds, net of estimated costs and income tax, of $158.0 million. The company recorded an after tax gain of $77.3 million for this Thailand disposition transaction. Funds flow from operations for the second quarter of 2012 was $7.0 million, or $0.12 per share. Net income attributable to common shareholders was $79.3 million, or $1.40 per share for the second quarter of 2012. Total capital expenditures for the second quarter of 2012 were $24.0 million, with $13.2 million in Thailand, $10.7 million in Indonesia and $0.1 million in Canada.

Additional Information

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