PAN ORIENT ENERGY CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

April 23, 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 April 23, 2012 and should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2011 and December 31, 2010. 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.

All amounts are in Canadian dollars unless otherwise stated and represent the net amount to Pan Orient's interests unless otherwise stated. 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 April 23, 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.

Adoption of International Financial Reporting Standards

Pan Orient adopted International Financial Accounting Standards ("IFRS") as the Company's generally accepted accounting principles ("GAAP"), effective January 1, 2011. The impact of adopting IFRS is disclosed in Note 4 of the audited consolidated financial statements for the year ended December 31, 2011. The Company's 2010 comparative financial information has been restated accordingly with details provided in Note 4 of the audited consolidated financial statements for the year ended December 31, 2011.

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:

($thousands)	Three Months Ended December 31 2011	Three Months Ended December 31 2010	Year Ended December 31 2011	Year Ended December 31 2010
Cash flow from operating activities	**10,284**	27,627	**39,791**	53,833
Current tax expense	**(4,081)**	(4,058)	**(6,050)**	(20,749)
Add back changes in non-cash working capital	**853**	(6,382)	**(2,268)**	1,842
Add back taxes paid	**5**	616	**14,397**	24,088
Funds flow from operations	**7,061**	17,803	**45,870**	59,014

Funds flow from operations, funds flow from operations per barrel and funds flow from operations per share (basic and diluted) 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 are divided into three distinct groups: 1) partially developed concessions located on-shore Thailand; 2) undeveloped interests in 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 December 31, 2011 (Note1)	Status	Net Square Kilometers	December 31, 2011 Financial Commitments (CDN$ thousands)		2011 Avg. Production (BOPD)	P+P Reserves (Mstb)
Onshore Thailand Concessions						
SW1A (60% working interest & operator)	Developed	9	-	-	156	526
L44/43 (60% working interest & operator) (Note 2)	Partially developed	556	$ 18	to July 2012	1,282	15,718
L33/43 (60% working interest & operator) (Note 3)	Partially developed	557	$ 49	to July 2012	137	1,959
L53/48 (100% working interest & operator)	Partially developed	1,959	$ 407	to January 2013	454	795
		3,081	$ 474		2,030	18,998
Onshore Indonesia PSC's						
Citarum PSC, West Java (77% working interest & operator) (Note 4	Undeveloped	684	$14,198	to October 2012		
Batu Gajah PSC, South Sumatra (97% working interest & operator) (Note 4)	Undeveloped	2,505	$14,514	to January 2013		
CPP South PSC, Central Sumatra (97% working interest & operator) (Note 4)	Undeveloped	2,603	$ 5,212	to November 2013		
Onshore & Offshore Indonesia PSC						
East Jabung PSC, South Sumatra (100% working interest & operator) (Note 4)	Undeveloped	4,339	$11,208	to November 2014		
		10,131	$45,132			
Consolidated Total		13,212	$45,606			

(1) *Amounts shown are calculated as at and for the year ended December 31, 2011. Commitments are denominated in USD and translated at December 31, 2011 exchange rates.*
(2) *Concession L44/43 in Thailand consists of 47 net square kilometers of lands held through production licenses (with a 20 year primary term plus an additional 10 year renewal period that can be applied for) and 509 net square kilometers of exploration lands. The exploration lands expire in July 2012 and the Company has applied for to reserve 294 net square kilometers of exploration lands for an additional 5 year period.*
(3) *Concession L33/43 in Thailand consists of 7 net square kilometers of lands held through production licenses (with a 20 year primary term plus an additional 10 year renewal period that can be applied for) and 550 net square kilometers of exploration lands. The exploration lands expire in July 2012 and the Company has applied to reserve 295 net square kilometers of exploration lands for an additional 5 year period.*
(4) *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
The Company has 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, 526 million barrels (3%) to SW1, 1,959 million barrels (10%) to L33 and 795 (4%) to L53. 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 does has not yet been granted a production license.

Significant discoveries at L44 include the Na Sanun East field in 2007, the Bo Rang fields in 2009 and the Wichian Buri Extension ("WBEXT") field in 2010. This concession is partially developed with capital activities consisting of 19 (11.4 net) wells drilled in 2011. Environmental approval is expected for up to 16 wells in the WBEXT "E" and "D" sandstone reservoir area by mid-2012, with an aggressive sandstone development program to follow in 2012. The 2012 capital program for L44 includes the drilling of up to 29 wells (17.4 net), with up to 15 wells targeting the WBEXT "E" and "D" sandstone reservoirs, five exploration wells targeting new sandstone or volcanic reservoirs, and the remaining wells targeting existing volcanic reservoirs. With the new oilfield discovery at Concession L53 in January 2012, part of the drilling program for L44 may be shifted to appraisal and development drilling of the sandstone potential in Concession L53.

On Concession SW1 one well was drilled in 2011 and produced an average of 61 BOPD in the second half of 2011. The 2012 drilling program includes one horizontal well in Concession SW1.

Concession L33 had its first commercial oil discovery in the third quarter of 2010 with the L33-1 and L33-2 wells which commenced production in November 2010. During 2011 the Company drilled two (1.2 net) exploration wells which were not successful.

Concession L53 had its first commercial oil discovery in the first half of 2010 with the L53-A well which commenced commercial production in August 2010. Six (6.0 net) wells were drilled at this concession in 2011, contributing 106,650 barrels of oil net to Pan Orient (average of 292 BOPD), plus the discovery of the L53-D East oil field which began test production in January 2012. Initial production testing results are encouraging and it is likely that the two wells originally included in the 2012 capital program for L53 will be increased significantly for appraisal and development drilling of the sandstone potential of the L53-D East field. Timing of the drilling will be dependent upon the exact timing of the approval of the L53-D East field production license and environmental approval for the drilling of additional wells. A 200 square kilometer 3D survey in Concession L53 is taking place in the first half of 2012, and targets an area which has minimal data coverage between Pan Orient's oil producing wells and a recent oil discovery made by a competitor to the North, adjacent to the concession boundary.

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 December 31, 2011 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.

In the first quarter of 2011, Pan Orient completed transactions which increased our interest in the Batu Gajah PSC to 97%, interest in the Citarum PSC to 77% and interest in the South CPP PSC to 97% through the repurchase of carried interests. The cost to repurchase the carried interests in the three PSC's was $1.8 million, including the issuance of 50,677 shares in Pan Orient at a deemed value of $0.3 million.

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 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.

In accordance with the Citarum PSC, in October 2011 the Company relinquished 1,539 net square kilometers of the original total contact area but retained the prospective areas identified by the Company.

At the South CPP PSC, preparations are underway for a 200 kilometer 2D seismic program in 2012. In accordance with the South CPP PSC, Pan Orient relinquished 1,735 net square kilometers of contract area in November 2011 but retained the prospective areas identified by the Company.

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 $11.2 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, a private oil company in which Pan Orient has 53% ownership, 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 pilot project location is on Andora 100% owned acreage within the South Block of its Sawn Lake Property in the Peace River Oil Sands Region.

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.

Andora Energy Corporation initiated a process in the first quarter of 2011 to identity and consider strategic alternatives. No binding proposal has been received to date and Andora is considering various alternatives for moving ahead with the pilot program.

Summarized financial information with respect to Andora is as follows:

($thousands)	As at and for the Three Months Ended December 31 2011	2010	As at and for the Year Ended December 31 2011	2010
Total assets	**58,141**	58,155	**58,141**	58,155
Total liabilities	**6,735**	6,831	**6,735**	6,831
Funds flow from operations	**(125)**	(236)	**(401)**	(535)
Net (loss) income	**(116)**	18	**(633)**	(210)

2011 OPERATING RESULTS

- Pan Orient had total corporate funds flow from operations of $45.9 million ($0.83 per share) in 2011 compared to $59.0 million ($1.22 per share) in 2010. The $13.1 million decrease in funds flow from operations from the prior year is primarily due to an $11.0 million reduction in funds flow from Thailand operations resulting from lower oil production volumes partially offset by higher oil prices, and a $1.4 million decrease in funds flow from Canada.

  Funds flow from operations for the fourth quarter of 2011 was $7.1 million ($0.12 per share) compared to $13.2 million ($0.23 per share) for the third quarter of 2011 and $17.8 million ($0.37 per share) for the fourth quarter of 2010. The reduction in funds flow from operations in the fourth quarter of 2011 compared to the third quarter of 2011 is largely due to current Thailand income taxes of $4.1 million and increased operating expenses and general & administrative expenses in Thailand. The reduction from the fourth quarter of 2010 is primarily due to a reduction in oil production levels since the fourth quarter of 2010 included flush production at the Wichian Buri Extension field.

- Net income attributable to common shareholders was $24.0 million ($0.43 per share) for 2011 compared to $23.5 million ($0.49 per share) for 2010. Net income attributable to common shareholders was $11.6 million ($0.21 per share) for the fourth quarter of 2011 compared to net income attributable to common shareholders of $3.9 million ($0.07 per share), for the third quarter of 2011 and $9.8 million ($0.20 per share) for the fourth quarter of 2010. The increase in net income attributable to common shareholders during the fourth quarter of 2011 reflects a $10.2 million reduction in future tax expense partially offset by higher depletion.

- Total 2011 capital programs were $70.9 million, with $48.3 million in Thailand primarily for the drilling of 28 gross wells, $22.2 million in Indonesia for exploration activities relating to the four Production Sharing Contracts (“PSC’s”) including the commencement of drilling at the Batu Gajah and Citarum PSC’s, and $0.4 million in Canada. Capital expenditures in Thailand were funded 98% by Thailand funds flow from operations, and the remaining capital programs were funded from working capital.

  Capital expenditures were $13.1 million in the fourth quarter of 2011 with $10.2 million in Thailand for a drilling program of eight wells and $2.7 million in Indonesia with site preparation and road access for the Citarum PSC drilling program that commenced on December 31, 2011 plus costs related to Pan Orient being awarded the new East Jabung PSC.

- At December 31, 2011 Pan Orient had $51.6 million of working capital and non-current deposits, and no long-term debt. In addition, at December 31, 2011 Pan Orient had $11.7 million of equipment inventory to be utilized for future Thailand and Indonesia operations which is included in exploration and evaluation assets in the consolidated statement of financial position. As at December 31, 2011 estimated commitments in Indonesia to November 2014 were $45.1 million for the Batu Gajah, Citarum, South CPP and East Jabung PSC’s. Estimated commitments in Thailand at December 31, 2011 were $0.5 million to January 2013; principally for the drilling of one additional well in Concession L53.

- Thailand

  - Average 2011 oil sales volume in Thailand was 2,030 BOPD with 1,826 BOPD for the fourth quarter of 2011. Average oil sales in the first quarter of 2012 were 2,541 BOPD and 63% was being produced from sandstone reservoirs.

  - Thailand operations in 2011 generated $47.2 million in funds flow from operations after tax, or $63.69 per barrel in 2011 compared to $58.2 million or $41.05 per barrel in 2010. The Thailand operations in 2011 experienced a 35% increase in the realized crude oil price and a 48% decrease in oil sales volumes. For 2011, transportation expenses of $2.27 per barrel, operating expenses and other royalty of $13.42 per barrel, general and administrative expenses $5.61 per barrel and amounts to the Thailand government of $13.09 per barrel resulted in after tax funds flow from operations per barrel of $63.69. Operating expenses increased 2% during the year to $9.7 million or $13.16 per barrel in 2011 from $9.5 million or $6.73 per barrel in 2010. General and administrative expenses in Thailand decreased 4% in 2011 to $4.2 million or $5.61 per barrel in 2011 from $4.3 million or $3.06 per barrel in 2010. For 2011, Thailand crude oil revenue was allocated 22% to expenses for other royalties, transportation, operating, and general & administrative, 13% to the government of Thailand in the form of royalties and income tax, and 65% to Pan Orient.

    For the fourth quarter of 2011, Thailand generated $7.7 million in funds flow from operations, or $45.87 per barrel, compared to $13.1 million for the third quarter of 2011. Lower funds flow from operations in the fourth quarter of 2011 reflects the $4.1 million ($24.29 per barrel) recorded for current Thailand income taxes (including year-end adjustments) and increased year-end personnel expenses in Thailand impacting operating expenses and general & administrative expenses. A 9% decrease in oil sales volumes was largely offset by a 6% increase in the realized price for crude oil. For the quarter, transportation expenses of $2.43 per barrel, operating expenses and other royalty of $17.62 per barrel, general and administrative expenses of $9.02 per barrel and amounts to the Thailand government of $29.49 per barrel resulted in after tax funds flow from operations per barrel of $45.87. The Brent reference price for crude oil per barrel remained essentially unchanged during the quarter at CDN$112.30 compared to the third quarter of 2011, as the 4% decrease in the Brent reference price in United States dollars was offset by a decrease in the Canadian dollar. Operating expenses increased to $2.9 million or $17.26 per barrel in the fourth quarter from $2.3 million, or $12.58 per barrel, in the third quarter of 2011 as a result of the additional year-end personnel expenses. For the fourth quarter of 2011, Thailand crude oil revenue was allocated 28% to expenses for transportation, operating, and general & administrative, 28% to the government of Thailand in the form of royalties and income tax, and 44% to Pan Orient.

- Capital expenditures in 2011 were $48.3 million in Thailand for ongoing drilling operations in all four concessions. A total of 28 gross wells (19.2 net) were drilled in Thailand during 2011 with 19 wells at Concession L44 (with four wells at the Wichian Buri Extension field, four wells at the NSE-F1 field, three wells at Bo Rang, three exploration wells on new geological structures, and five wells at other oil fields), two wells at Concession L33, one appraisal well at the SW1 Concession and six wells at Concession L53. Drilling during 2011 was directed 32% to development wells and 68% to exploration and appraisal wells.

  The nine development wells (three at Concession L53 in sandstone reservoirs, two at the Bo Rang field, two at the NSE-F1 field and one each in the sandstone reservoirs at the POE-6 and WBEXT fields) resulted in eight producing oil wells which produced 142,597 barrels of oil net to Pan Orient in 2011 and represented 620 BOPD in the fourth quarter of 2011.

  The 19 exploration and appraisal wells in 2011 had limited success although the L53-D2 exploration well drilled at the end of December 2011 resulted in a potentially significant sandstone reservoir discovery that is currently being tested. The drilling program resulted in five producing oil wells in the fourth quarter of 2011, an additional two wells (L53-D2 and L44V-D1ST2) which started production in 2012, produced 45,462 barrels of oil net to Pan Orient in 2011 and represented 196 BOPD in the fourth quarter of 2011.

- Capital expenditures in the fourth quarter 2011 were $10.2 million with the drilling of eight gross (5.2 net) wells. Six wells were drilled in Concession L44, with three at the Bo Rang field and three at the NSE-F1 field resulting in four producing oil wells. One exploration well was drilled unsuccessfully at Concession L33 and the L53-D2 exploration well in Concession L53 resulted in the potentially significant sandstone reservoir discovery.

- The independent reserves evaluation conducted by Gaffney, Cline & Associates (Consultants) Pte. Ltd. of Singapore ("Gaffney Cline") for the Thailand assets at December 31, 2011 assigned proved plus probable reserves of 19.0 million barrels at December 31, 2011, a 40% decrease from 31.9 million barrels at December 31, 2010. The 12.6 million barrel downward revision related to previously assigned reserves at volcanic oil fields in Concessions L44 and L33. 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. The net present value of proved and probable reserves after tax (using forecast prices and discounted at 10%) was Cdn$349 million, representing $6.15 per Pan Orient share based on the 56.7 million shares outstanding.

➢ Indonesia

- At the Batu Gajah PSC on-shore Sumatra (Pan Orient operator and 97% ownership), Pan Orient commenced the exploration drilling program in late March 2011.

  - Capital expenditures of $15.5 million at the Batu Gajah PSC in 2011 were $11.9 million for well-site preparation, road access and the drilling of two wells, $2.0 million for equipment inventory and $1.6 million for capitalized exploration overhead and other costs. Capital expenditures in the fourth quarter of 2011 were $0.8 million.

  - 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 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 with two prospects planned to be drilled in Batu Gajah in 2012.

- At the Citarum PSC on-shore Java (Pan Orient operator and 77% ownership), Pan Orient commenced the three well exploration drilling program at the end of December.
  - Capital expenditures of $4.5 million at the Citarum PSC in 2011 were $2.9 million for well-site preparation, road access for the Cataka-1, Jatayu-1 and Geulis-1 exploration wells and the start of drilling of the Cataka-1 well, $0.2 million for equipment inventory and $1.4 million for capitalized exploration overhead and other costs. Capital expenditures in the fourth quarter of 2011 were $1.8 million.
  - The Cataka-1 exploration well started 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 TVD, 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 well which is currently drilling, drilling will commence on the re-drill of the Cataka prospect (with Cataka-1A well) incorporating a redesigned well plan incorporating the information gathered from the original well
  - After drilling of the Cataka 1A exploration well, the rig will mobilize to the Geulis exploration prospect.
- At the South CPP PSC on-shore Sumatra (Pan Orient operator and 97% ownership), Pan Orient had capital expenditures of $0.6 million in 2011 relating to seismic interpretation, environmental study, and overhead.
- The East Jabung PSC was formally granted on a 100% basis to Pan Orient on November 21, 2011. The 6,228 square kilometer East Jabung PSC is located on and offshore south Sumatra Indonesia, and directly east and adjacent to the company's 97% working interest and operated Batu Gajah PSC. Costs in 2011 of $1.5 million are for the signature bonus to the Government of Indonesia.
- In the first quarter of 2011, Pan Orient completed transactions which increased our interest in the Batu Gajah PSC to 97%, interest in the Citarum PSC to 77% and interest in the South CPP PSC to 97% through the repurchase of carried interests. The cost to repurchase the carried interests in the three PSC's was $1.8 million, including the issuance of 50,677 shares in Pan Orient at a deemed value of $0.3 million.

➢ Canada - Andora Energy Corporation

- Andora Energy Corporation, a private oil company in which Pan Orient has 53% ownership, 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 pilot project location is on Andora 100% owned acreage within the South Block of its Sawn Lake Property in the Peace River Oil Sands Region.
- 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.

  Sawn Lake "Best Case" contingent resources of 114.4 million barrels attributed to the 53.4% ownership interest of Pan Orient in Andora have been assigned largely in the South and Central Blocks of Sawn Lake. Andora is the operator of these lands and holds a 100% working interest in the 16 sections of the South Block and holds a 50% working interest plus an additional 3% gross overriding royalty ("GORR") on non-owned 40% working interest in the 12 sections of the Central Block. Net present value of the "Best Case" (discounted at 10% after income tax using forecast prices) attributed to Sawn Lake contingent resources is $327 million to the 53.4% ownership interest of Pan Orient in Andora.
- There is no change from the estimate of contingent resource volumes as at December 31, 2010 prepared by Sproule. The December 31, 2011 contingent resource report by Sproule represents a mechanical update incorporating new forecasted prices for natural gas and crude oil, and revised estimates of operating expenses and capital expenditures. The most significant changes are a reduction in natural gas prices and an increase in crude oil prices.
- Andora Energy Corporation initiated a process in the first quarter of 2011 to identity and consider strategic alternatives. No binding proposal has been received to date and Andora is considering various alternatives for moving ahead with the pilot program.

OUTLOOK FOR 2012

2012 Budget and Work Program

Production guidance for corporate planning purposes in 2012 has been set at an average of 2,500 BOPD net to Pan Orient for the year. Results from Concession L53 (100% Pan Orient owned) will likely have the largest potential positive impact on Thailand production in 2012 and the work program is subject to the timing of the granting of a production license and the environmental approval the drilling of up to 12 wells.

The capital budget for 2012 is estimated at $77.5 million with $40 million for Indonesia that includes six exploration wells (Cataka-1 & 1A, Jatayu-1 & Geulis-1 in the Citarum PSC, two wells in Batu Gajah PSC and one well in East Jabung PSC), a 2D seismic program in South CPP, and a 3D seismic program in Batu Gajah, and $37 million in Thailand including 33 wells (with approximately 20% exploration wells) and a 3D seismic program in Concession L53. The exact well breakdown between concessions in Thailand will be heavily influenced by Concession L53 exploration drilling results and timing of regulatory approvals

Canadian operations are allocated an additional $0.5 million. Cash flow, under current oil price and production assumptions, is anticipated to fund approximately $55 million of the 2012 budget with the remaining $22.4 million funded through working capital and deposits which totaled $51.6 million at December 31, 2011.

- Thailand
  - Robust economics as evidenced by after tax netbacks in 2011 of $63.69 per barrel, and a strong organization.
  - Focus on drilling of sandstone reservoirs in Concessions L53, L44 and SW1 which have more predictable production and longer reserve life. Currently, the Company is waiting on regulatory approval for 16 sandstone wells in Concession L44 which is expected sometime between late May and August 2012, and for the approval of additional sandstone drilling locations at Concession L53.
  - Continued application of the ICD technology with planned horizontal infill pilots within the NSE South and Central fields of Concession L44, targeting 90-120 BOPD per well (net).
  - Focus on the development, appraisal and exploration of conventional sandstone reservoirs within Concession L53. This will include an additional appraisal well that is planned to commence drilling within the next 5 days into an unproven fault compartment of the L53-D East oil discovery and up to 12 development and appraisal wells that are currently under application for an environmental permit. A production license application for the L53-D East discovery will be submitted by the end of April with approval anticipated by the end of July.
  - As part of the production license application for L53-D East, a third party contingent resource estimate for the one proven fault compartment will be completed prior to the end of April. Initial test data suggests that the multiple sandstone reservoirs encountered in the two wells drilled to date are in close proximity to oil/water contacts as suggested by the varying water cuts observed at the end of each test. The negative aspect of this suggests the approximately 1.5 square kilometer fault compartment is not filled out to the limit of structural closure; the positive aspect is that recovery factors are expected to be high, in the order of 20%-30% due to the active water drive. Pre-drill estimates of between 4 to 12 million barrels of recoverable oil for the entire structural closure encompassing 3 separate fault compartments are now expected to be in the maximum range of 4 million barrels recoverable for one of the three fault compartments with the hydrocarbon potential of the additional two undrilled fault compartments yet to be defined by drilling.
- Indonesia
  - Batu Gajah – Two wells are planned on Batu Gajah in 2012 with the NTO-2 well targeting the updip potential of the NTO-1 gas discovery made in 2011 and the Shinta-1 exploration well, at a prospect located north of NTO-2. Both wells are being drilled on the basis of 3D seismic data. The exact timing of drilling is dependent on the success ongoing negotiations with the forestry company that holds the surface access rights over both of these locations, and for which have been ongoing for some time now.
  - Citarum –The Jatayu-1 well is currently setting casing at a depth of approximately 1,424 meters TVD. The well will be drilled to the primary Parigi limestone reservoir objective estimated at approximately 2,300 meters TVD. Once drilling is completed at Jatyau-1, the rig will move to Cataka-1A, followed by Geulis-1.
  - South CPP – 2D seismic is planned in 2012 with the drilling of 1 exploration well scheduled for 2013.
  - East Jabung – A 2D seismic program is planned for 2012 with the drilling of up to two exploration wells planned to commence drilling in late 2012 or early 2013. Initially drilling was scheduled for mid-2012 but original survey monuments for the seismic program conducted over 20 years ago could not be located. Because the data was acquired prior to the introduction of the GPS survey system, the exact positioning of the earlier acquired 2D data is subject to a large degree of uncertainty.
- Pan Orient is well funded for the 2012 capital program, and possesses an acreage and prospect inventory that has been more than four years in the making to reach the point of drilling that we are at now. The portfolio of prospects is diverse across a number of reservoir types, basins and countries and in many cases, of a potential size whereby any one success has the potential to transform the production and reserves base of the Company.

Financial and Operating Summary	Three Months Ended December 31,		Year Ended December 31,		
(thousands of Canadian dollars except where indicated)	**2011**	2010	**2011**	2010	Change
FINANCIAL					
Oil revenue, before royalties and transportation expense	**17,523**	28,495	**72,576**	103,019	-30%
Funds flow from operations (Note 1)	**7,061**	17,803	**45,870**	59,014	-22%
Per share – basic	**$ 0.12**	$ 0.37	**$ 0.83**	$ 1.22	-32%
Per share – diluted	**$ 0.12**	$ 0.36	**$ 0.83**	$ 1.21	-32%
Funds flow from operations by region (Note 1)					
Canada	**(301)**	(97)	**(686)**	718	
Thailand	**7,708**	17,709	**47,184**	58,198	-19%
Indonesia	**(346)**	191	**(628)**	98	
Total	**7,061**	17,803	**45,870**	59,014	-22%
Net income attributable to common shareholders	**11,573**	9,833	**23,991**	23,524	2%
Per share – basic	**$ 0.21**	$ 0.20	**$ 0.43**	$ 0.49	11%
Per share – diluted	**$ 0.21**	$ 0.20	**$ 0.43**	$ 0.48	10%
Working capital	**48,651**	26,768	**48,651**	26,768	82%
Working capital and non-current deposits	**51,632**	31,396	**51,632**	31,396	64%
Long-term debt	**-**	-	**-**	-	
Capital expenditures (Note 2)	**13,065**	13,638	**70,896**	61,328	16%
Dispositions	**(308)**	-	**(308)**	-	
Acquisitions – Indonesia (Note 3)	**-**	-	**1,761**	-	
Acquisitions – Sawn Lake, Canada (Note 3)	**(3,192)**	-	**-**	-	
Shares outstanding (thousands)	**56,685**	48,741	**56,685**	48,741	16%
Funds Flow from Operations per Barrel (Note 1)					
Canada operations	**$ (1.79)**	$ (0.26)	**$ (0.93)**	$ 0.51	
Thailand operations	**45.87**	47.46	**63.69**	41.05	55%
Indonesia operations	**(2.06)**	0.51	**(0.85)**	0.07	
Total	**$ 42.02**	$ 47.71	**$ 61.90**	$ 41.63	49%
Capital Expenditures (Note 2)					
Canada	**142**	268	**378**	863	-56%
Thailand	**10,230**	11,746	**48,299**	43,441	11%
Indonesia	**2,693**	1,624	**22,219**	17,024	31%
Total	**13,065**	13,638	**70,896**	61,328	16%
Working Capital and Non-current Deposits					
Working capital and non-current deposits – beginning of period	**58,016**	27,746	**31,396**	32,738	-4%
Funds flow from operations (Note 1)	**7,061**	17,803	**45,870**	59,014	-22%
Capital expenditures (Note 2)	**(13,065)**	(13,638)	**(70,896)**	(61,328)	16%
Acquisitions – Indonesia (Note 4)	**-**	-	**(1,417)**	-	
Non-cash settlement of Andora receivable	**-**	-	**-**	(600)	
Foreign exchange impact on working capital	**(380)**	(847)	**(937)**	(2,097)	-55%
Net proceeds on share transactions	**-**	332	**47,616**	3,669	1198%
Working capital and non-current deposits – end of period	**51,632**	31,396	**51,632**	31,396	64%
Canada Operations					
Interest income	**93**	21	**362**	50	623%
General and administrative (expense) recovery (Note 5)	**(347)**	38	**(810)**	708	
Realized foreign exchange loss	**(47)**	(212)	**(238)**	(40)	509%
Foreign new ventures expenditures	**-**	57	**-**	-	
Funds flow from operations (Note 1)	**(301)**	(97)	**(686)**	718	
Funds flow from operations per barrel					
Interest income	**$ 0.55**	$ 0.06	**$ 0.49**	$ 0.04	1120%
General and administrative expense (Note 5)	**(2.07)**	0.10	**(1.09)**	0.50	
Realized foreign exchange loss	**(0.28)**	(0.57)	**(0.32)**	(0.03)	969%
Foreign new ventures expenditures	**-**	0.15	**-**	-	
	$ (1.79)	$ (0.26)	**$ (0.93)**	$ 0.51	
Indonesia Operations					
General and administrative (expense) recovery (Note 5)	**(163)**	191	**(445)**	98	
Foreign new ventures expenditures	**(183)**	-	**(183)**	-	
Wells drilled					
Gross	**1.0**	-	**3.0**	-	
Net	**0.8**	-	**2.8**	-	

(thousands of Canadian dollars except where indicated)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Year Ended December 31, 2010	Change
THAILAND OPERATIONS					
Oil sales (bbls)	**168,022**	373,147	**740,889**	1,417,750	-48%
Average daily oil sales (bbls/d) by Concession					
L44	**1,162**	3,572	**1,282**	3,575	-64%
SW1	**200**	124	**156**	161	-3%
L33	**69**	272	**137**	69	99%
L53	**396**	88	**454**	79	475%
Total	**1,826**	4,056	**2,030**	3,884	-48%
Average oil sales price, before transportation (CDN$/bbl)	**$ 104.29**	$ 76.36	**$ 97.96**	$ 72.66	35%
Reference Price (volume weighted) and differential					
Exchange Rate $US/$Cdn	**1.03**	1.01	**1.00**	1.04	-4%
Crude oil (WTI $US/bbl)	**$ 94.08**	$ 84.70	**$ 95.26**	$ 79.36	20%
Crude oil (WTI $Cdn/bbl)	**$ 96.66**	$ 85.83	**$ 94.96**	$ 82.17	16%
Sales price / WTI $Cdn reference price	**108%**	89%	**103%**	88%	15%
Crude oil (Brent $US/bbl)	**$ 109.29**	$ 86.01	**$ 111.35**	$ 79.63	40%
Crude oil (Brent $Cdn/bbl)	**$ 112.30**	$ 87.16	**$ 110.99**	$ 82.45	35%
Sale price / Brent $Cdn reference price	**93%**	88%	**88%**	88%	0%
Funds flow from operations (Note 1)					
Crude oil sales	**17,523**	28,495	**72,576**	103,019	-30%
Government royalty	**(874)**	(1,826)	**(3,651)**	(6,498)	-44%
Other royalty	**(60)**	(37)	**(196)**	(110)	78%
Transportation expense	**(409)**	(1,017)	**(1,683)**	(3,653)	-54%
Operating expense	**(2,900)**	(2,886)	**(9,748)**	(9,535)	2%
	13,280	22,729	**57,298**	83,224	-31%
General and administrative expense (Note 5)	**(1,516)**	(974)	**(4,153)**	(4,345)	-4%
Interest income	**25**	11	**89**	68	31%
Special Remuneratory Benefit tax (SRB)	**-**	(1,549)	**-**	(6,413)	-100%
Current income tax	**(4,081)**	(2,508)	**(6,050)**	(14,336)	-58%
Funds flow from operations	**7,708**	17,709	**47,184**	58,198	-19%
Funds flow from operations / barrel (CDN$/bbl) (Note 1)					
Crude oil sales	**$ 104.29**	$ 76.36	**$ 97.96**	$ 72.66	35%
Government royalty	**(5.20)**	(4.89)	**(4.93)**	(4.58)	8%
Other royalty	**(0.36)**	(0.10)	**(0.26)**	(0.08)	231%
Transportation expense	**(2.43)**	(2.73)	**(2.27)**	(2.58)	-12%
Operating expense	**(17.26)**	(7.73)	**(13.16)**	(6.73)	96%
	79.04	60.91	**77.34**	58.70	32%
General and administrative expense (Note 5)	**(9.02)**	(2.61)	**(5.61)**	(3.06)	83%
Interest income	**0.15**	0.03	**0.12**	0.05	141%
Special Remuneratory Benefit (SRB)	**-**	(4.15)	**-**	(4.52)	-100%
Current income tax	**(24.29)**	(6.72)	**(8.17)**	(10.11)	-19%
Thailand – Funds flow from operations	**$ 45.87**	$ 47.46	**$ 63.69**	$ 41.05	55%
Government royalty as percentage of crude oil sales	**5.0%**	6.4%	**5.0%**	6.3%	-1.3%
SRB as percentage of crude oil sales	**0.0%**	5.4%	**0.0%**	6.2%	-6.2%
Income tax as percentage of crude oil sales	**23.3%**	8.8%	**8.3%**	13.9%	-5.6%
As percentage of crude oil sales					
Expenses – transportation, operating, G&A and other	**28%**	17%	**22%**	17%	5%
Government royalty, SRB and income tax	**28%**	21%	**13%**	27%	-14%
Funds flow from operations, before interest income and realized foreign exchange gain	**44%**	62%	**65%**	56%	9%
Wells drilled					
Gross	**8.0**	6.0	**28.0**	25.0	12%
Net	**5.2**	4.0	**19.2**	15.4	25%

(thousands of Canadian dollars except where indicated)	Year Ended December 31, 2011	2010	Change
RESERVES AND CONTINGENT RESOURCES			
Onshore Thailand (reserves assigned to Concessions L44/43, L33/43 and SW1 where Pan Orient is the operator with a 60% interest, and Concession L53/48 where Pan Orient is the operator with a 100% interest) (Note 6)			
Proved oil reserves (thousands of barrels)	**5,993**	7,363	-19%
Proved plus probable oil reserves (thousands of barrels)	**18,998**	31,935	-41%
Net present value of proved + probable reserves, after tax discounted at 10%	**349,000**	509,000	-31%
Per Pan Orient share – basic (Note 7)	**$ 6.15**	$ 10.44	-41%
Net present value of proved + probable reserves, after tax discounted at 15%	**283,000**	413,000	-31%
Per Pan Orient share – basic (Note 7)	**$ 4.99**	$ 8.47	-41%
Canada (share of the oil sands leases of Andora at Sawn Lake, Alberta)			
Contingent Oil Resources – Best Estimate “2C” (thousands of barrels) (Note 8)	**114,400**	103,900	10%
Net Present value, before tax discounted at 10%	**327,000**	222,000	47%
Per Pan Orient share – basic (Note 7)	**$ 5.77**	$ 4.55	27%
Net present value, before tax discounted at 15%	**103,000**	45,000	129%
Per Pan Orient share – basic (Note 7)	**$ 1.82**	$ 0.92	98%

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

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

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

(5) General and administrative expenses, excluding non-cash accretion on decommissioning provision.

(6) Thailand reserves as at December 31, 2011 and December 31, 2010 as evaluated by Gaffney Cline & Associates (Consultants) Pte. Ltd. of Singapore assessed at forecast crude oil reference prices and costs. The reference price for crude oil per barrel (US$ Brent per barrel) for the December 31, 2011 evaluation is $105.61 for 2012, $101.36 for 2013, $97.23 for 2014, $97.41 for 2015, $101.42 for 2016, $103.37 for 2017 and prices increase at 2.0% per year thereafter. The engineered values disclosed may not represent fair market value.

(7) Per share values calculated based on 56,685,307 Pan Orient Shares outstanding at December 31, 2011 and 48,740,866 Pan Orient Shares outstanding at December 31, 2010.

(8) Pan Orient's 53.4% share as at December 31, 2011 and December 31, 2010 of the reserves of Andora Energy Corporation, a private company as evaluated by Sproule Associates Ltd. assessed at forecast crude oil reference prices and costs. The reference price for crude oil per barrel (Western Canada Select WCS 20.5 API adjusted for quality and transportation in Canadian dollars) is $82.34 for 2012, $79.69 for 2013, $77.25 for 2014, $81.80 for 2015, $83.44 for 2016 and prices increasing at 2% thereafter. Future capital expenditures estimated at $1,055 million. The engineered values disclosed may not represent fair market value.

(9) Tables may not add due to rounding.

Oil Production and Revenue

Petroleum revenue for the three months and year ended December 31, 2011 was $17.5 million and $72.6 million, respectively. The 2011 annual amount represents a decline of 30% compared to the previous year. Average daily oil sales of 2,030 BOPD for the year ended December 31, 2011 was 48% less than 2010. Fourth quarter oil sales of 1,826 BOPD were down 55% from the fourth quarter of 2010 and 9% from the third quarter of 2011. The declines from volcanic reservoirs L44 are predominantly responsible for the Company's decreasing volume. The decline in oil sales volumes of the fourth quarter of 2011 compared with the fourth quarter of 2010 is impacted by initial high initial production rates in the fourth quarter of 2010 from the new wells in the WBEXT field.

The Company's average realized price for its production was $104.29 per barrel for the three months ended December 31, 2011 and $97.96 per barrel for the year ended December 31, 2011, representing increases of 37% and 35%, over the respective periods in 2010. The Company's realized sales price has historically been in the range of 85% to 90% of WTI, with the discount attributed to the high paraffin content of the petroleum. However, for the year ended December, 2011, the Company's realized price was 103% of WTI, due to the strength of oil product prices in Singapore which was used to determine the price according to Pan Orient's oil sales contracts. The WTI reference price is used by the Company for comparison purposes because of stakeholder familiarity with this benchmark. However, it does not necessarily influence the price Pan Orient receives for its production. The Company's realized price can be more accurately trended to the international benchmark of Brent Crude, measured in Canadian dollars, of which Pan Orient's realized price for the year was 88% for both 2010 and 2011.

Royalties

The Company pays 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 which produced an average of 70 BOPD in 2011 and which does not have a significant impact on the royalty rate. The royalty rate paid to the Thai government is based on a sliding scale determined by the production each concession (calculated on a 100% working interest basis for the concession), ranging from 5% on production of less than 2,000 barrels of oil per day to 15% on production in excess of 20,000 barrels per day.

Total royalties of $0.9 million for the three months ended December 31, 2011 were relatively consistent with royalties reported in the first three quarters of the year. Overall royalties of $3.8 million for the year ended December 31, 2011 were $2.8 million less than the previous year largely due to a lower government royalty rate resulting from reduced production volumes and greater diversification of from production volumes amongst the four concessions in 2011. As a result, the Thailand government royalty was 5.0% of revenue in 2011 compared to 6.3% in 2010.

Transportation 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 $2.43 per barrel for the three months ended December 31, 2011 and $2.27/bbl for the year ended December 31, 2011. In 2010 this expense was $2.73 per barrel and $2.58 per barrel for the three and twelve month period ended December 31, respectively. Oil trucked from Concession L53 (which commenced production in August 2010) benefits from a lower contracted rate due to its proximity to the Bangkok refinery compared to the other three concessions. Therefore, as production from Concession L53 increases relative to total production volumes, the Company can expect to benefit from proportionately reduced transportation costs.

Operating Expenses

Operating expenses represent the costs for with the field expenditures associated with the oil production in Thailand. Operating expenses in 2011 increased 2% to $9.7 million in 2011 from $9.5 million in 2010. Operating costs were $2.9 million in the fourth quarter of 2011 were $2.9 million compared to $2.3 million in the third quarter of the year and $2.9 million in the fourth quarter of 2010. Year-end bonuses and standard Thailand government mandated pension obligations were recorded in the fourth quarter. A significant portion of the Company's operating expenses are fixed based on the number of well sites and the geographical proximity of the wells. Therefore, a decline in production does not necessarily reduce operating expenses significantly. On a per barrel basis, operating expenses of $17.26 per barrel for the fourth quarter were higher than $12.58 per barrel in the third quarter of 2011 and considerably higher than the $6.73 per barrel reported in the comparable quarter of 2010.

Depletion and Depreciation ("D&A")

	As at and for the Three Months Ended December 31		As at and for the Year Ended December 31	
($thousands)	2011	2010	2011	2010
Depletion of Thailand PP&E(1)	**5,122**	2,598	**10,604**	8,396
Depreciation of office equipment and assets	**81**	186	**378**	428
Total D&A	**5,203**	2,784	**10,982**	8,824
Total D&A - $/bbl	**30.97**	7.46	**14.82**	6.22

(1) Including decommissioning costs

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

Prior to January 1, 2011, the Company calculated depletion using volumes and future development costs with respect to proved reserves. With the conversion to IFRS effective January 1, 2011 (and with restatement for the year ended December 31, 2010), the Company calculates depletion using volumes and future development costs with respect to proved plus probable reserves.

Costs subject to depletion included $90.6 million (2010 - $76.0 million) of estimated future development costs for proved plus probable reserves.

Taxes

	As at and for the Three Months Ended December 31		As at and for the Year Ended December 31	
($thousands)	2011	2010	2011	2010
Special remuneratory benefit	**-**	1,550	**-**	6,413
Income tax	**4,081**	2,508	**6,050**	14,336
Total current tax expense	**4,081**	4,058	**6,050**	20,749
Deferred tax (recovery) expense	**(10,265)**	3,466	**8,233**	18,718
Total tax (recovery) expense	**(6,184)**	7,524	**14,283**	39,467

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 meters drilled on the concession. In 2010, SRB was only payable for Concession L44. The calculated rate for the year ended December 31, 2011 is 0% for all four concessions and the reduction in SRB related to Concession L44 is primarily attributed to lower production volumes in 2011. For oil sales at SW1, L33 and L53 in 2011, the Company continues to utilize its SRB loss carry forwards to shelter SRB taxes. Due to the numerous factors involved in the SRB calculation, it is uncertain when SRB will be payable on the four concessions.

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 the SRB and income tax can vary significantly from the actual SRB and income tax rates. For the year ended December 31, 2011, SRB was 0.0% (2010 – 8.1%) of funds flow from operations before tax and income tax was 11.4% (2010 – 18.2%) of funds flow from operations before tax.

At December 31, 2011, tax payable was $3.7 million, representing the difference between the estimated current tax expense for the year ended December 31, 2011 and the half-year income tax paid in August 2011. The taxes paid in August was an estimate for the first half of 2011 calculated based on estimates of taxable income for the entire year.

General and Administrative (G&A) Expenses

	As at and for the Three Months Ended December 31		As at and for the Year Ended December 31	
($thousands)	2011	2010	2011	2010
Thailand	**1,644**	1,101	**4,663**	5,113
Indonesia	**632**	452	**3,051**	2,340
Canada	**378**	-	**935**	(568)
Total G&A, net of overhead recoveries	**2,654**	1,553	**8,649**	6,885
Allocated to capital projects	**(628)**	(811)	**(3,241)**	(3,346)
Cash G&A	**2,026**	742	**5,408**	3,539
Accretion on decommissioning provision	**102**	110	**372**	292
Total G&A	**2,128**	852	**5,780**	3,831
Cash G&A - $/bbl	**12.06**	1.99	**7.30**	2.50
Total G&A - $/bbl	**12.67**	2.28	**7.80**	2.70

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.

Capitalized G&A allocated to capital projects represents compensation and other costs associated with property acquisition, and exploration and development activities. Capitalized G&A in the current year relates to exploration and development activities in 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 each reporting period.

The 9% decrease in 2011 Thailand G&A, net of recoveries, compared with 2010 reflects the reduction in the number of expatriate staff and the fact that 2010 costs included non-routine expenses associated with the reduction of expatriate personnel in Thailand. Thailand G&A was higher in the fourth quarter of 2011 with the recording of year-end bonuses and standard Thailand government mandated pension obligations. Canada G&A, net of recoveries, was higher in 2011 by $1.8 million primarily due to a $1.7 million reduction in recoveries from Thailand and Indonesia. G&A in Indonesia, along with a corresponding amount of capitalized G&A, increased in 2011 as Pan Orient as the need for resources there expanded with the commencement of drilling programs at Batu Gajah and Citarum and the addition of the East Jabung PSC.

Capital Invested (1)

	Year Ended December 31			
	2011		2010	
	$000s	Net wells drilled	$000s	Net wells drilled
Capital expenditures				
Thailand	**48,299**	**19.2**	43,441	15.4
Indonesia	**22,219**	**2.8**	17,024	-
Canada	**378**	**-**	863	-
Total capital expenditures	**70,876**	**22.0**	61,328	15.4
Indonesia acquisition expenditures – cash	**1,417**	**-**	-	-
Disposition	**(308)**	**-**	-	-
Capital and acquisition expenditures and dispositions – cash	**72,005**	**22.0**	61,328	15.4
Indonesia acquisition – non cash	**344**	**-**	-	-
Sawn Lake acquisition – non cash	**3,192**	**-**	-	-
Sawn Lake disposition – non cash	**(3,192)**	**-**	-	-
Total capital invested	**72,349**	**22.0**	61,328	15.4

(1) Excluding foreign exchange and decommissioning provision

Liquidity and Capital Resources

Liquidity

Pan Orient's capital program in 2011, excluding dispositions and acquisitions, was financed 65% by funds generated from operating activities with the remainder obtained from existing working capital and proceeds from the Company's financing which closed in March 2011, involving the issuance of 7.6 million common shares at a price of $6.55 per share for proceeds of $46.5 million net of expenses. Thailand funds flow from operations of $47.2 million funded 98% of Pan Orient's $48.3 million capital program in the country. Pan Orient's working capital position is forecasted regularly and it plans to fund future capital expenditures and commitments with existing cash balances, equipment inventory and expected cash flows from the Thailand operations. At December 31, 2011 the Company's working capital plus non-current deposits of $51.6 million exceeded estimated outstanding commitments of $45.6 million by $6 million. In addition, at December 31, 2011 Pan Orient had $11.7 million of equipment inventory to be utilized for future Thailand and Indonesia operations which is included in exploration and evaluation assets in the consolidated statement of financial position.

At December 31, 2011, Pan Orient's cash and cash equivalents of $52.4 million, compared to $50.7 million at September 30, 2011 and $37.1 million at December 31, 2010, were held in jurisdictions as follows:

($thousands)	As at December 31, 2011	As at September 30, 2011	As at December 31, 2010
Cash held in Canada	**37,232**	38,543	16,273
Cash held in Thailand	**11,893**	11,055	19,776
Cash held in Indonesia	**3,282**	1,146	1,012
Total cash	**52,407**	50,744	37,061

Working capital plus non-current cash deposits at December 31, 2011 was $51.6 million compared to $58.0 million at September 30, 2011 and $31.4 million at December 31, 2010. The increase was attributable to the Company's financing in March 2011, offset by capital expenditures in excess of operating cash flows. Specific details with respect to the fluctuations in working capital plus non-current deposits are shown in the "Financial and Operating Summary" table.

Non-current cash deposits of $3.0 million at December 31, 2011 relate to guarantees to the Thailand government for customs importation permits and to the Indonesia governments for the Company's work commitments.

Share Capital

Outstanding (000s)	As at April 23, 2012	As at December 31, 2011
Common shares	**56,685**	**56,685**
Stock options	**3,667**	**3,817**
Total	**60,352**	**60,502**

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. In each reporting period, the changes in the values of the Thai baht and U.S. dollar relative to the Company's reporting currency are 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 are as follows:

	2011				**2010**			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Rate at end of period								
Thai baht / CAD $ exchange	**30.69**	29.63	31.38	30.84	29.80	29.10	30.44	31.42
U.S. dollar / CAD $ exchange	**1.02**	1.04	0.968	0.971	1.001	1.034	1.054	1.016

A fundamental aspect of the Company's treasury function is mitigating the effect of foreign currency exchange fluctuations to the extent possible. 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. The Canadian dollar spent much of 2011 above parity compared to the US dollar but lost some ground and by the end of the year was less than the greenback. As such, the Company reported an unrealized foreign exchange gain on its Indonesian operations and amounts in Thailand and Canada held in US dollars. The Canadian dollar followed the same trend compared to the Thai baht in the current period, also creating unrealized gains on the Company's Thailand operations and for the current quarter and for the year. All unrealized amounts were recorded in accumulated other comprehensive income ("AOCI") in the consolidated statement of financial position as follows:

	As at and for the Three Months Ended December 31		As at and for the Year Ended December 31	
($thousands)	2011	2010	2011	2010
AOCI balance at beginning of period	**7,908**	10,120	**2,915**	-
Unrealized foreign currency translation gain (loss)	**(7,021)**	(7,205)	**(2,028)**	2,915
AOCI balance at end of period	**887**	2,915	**887**	2,915

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

	As at and for the Three Months Ended December 31		As at and for the Year Ended December 31	
($thousands)	2011	2010	2011	2010
Foreign exchange gain (loss) related to Thailand	**(4,446)**	(862)	**(3,098)**	6,189
Foreign exchange gain (loss) related to Indonesia	**(2,575)**	(6,343)	**1,070**	(3,274)
Total change in AOCI	**(7,021)**	(7,205)	**(2,028)**	2,915

Selected Annual Information

(thousands of Canadian dollars except where indicated)	Years Ended December 31, **2011**	2010	2009[2]
FINANCIAL			
Oil revenue before royalties	**72,576**	103,019	98,236
Average daily oil sales (BOPD)	**2,030**	3,884	4,496
Average oil sales price (CDN$/bbl)	**$ 98**	$ 73	$ 60
Funds flow from operations (Note 1)	**45,870**	59,014	52,950
Per share – basic	**$ 0.83**	$ 1.22	$ 1.15
Per share – diluted	**$ 0.83**	$ 1.21	$ 1.10
Funds flow from operations by region (Note 1)			
Canada	**(686)**	718	(1,716)
Thailand	**47,184**	59,198	54,811
Indonesia	**(628)**	98	(145)
Total	**45,870**	60,014	52,950
Net income	**23,991**	23,524	15,145
Per share - basic	**$ 0.43**	$ 0.49	$ 0.33
Per share - diluted	**$ 0.43**	$ 0.48	$ 0.31
Total assets	**371,276**	296,709	241,781
Total non-current liabilities	**73,016**	61,672	37,641
Working capital	**48,651**	26,768	28,659
Working capital plus non-current deposits	**51,632**	31,396	32,738
Long-term debt	**-**	-	-
Capital expenditures	**70,896**	61,328	63,495
Weighted average shares outstanding (thousands)			
Basic	**55,254**	48,187	46,008
Diluted	**55,357**	48,823	48,125
Shares outstanding (thousands)			
Basic	**56,685**	48,741	46,313
Diluted	**60,502**	53,194	50,755

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

(2) Canadian Generally Accepted Principles ("GAAP"). As the transition date to International Financial Reporting Standards ("IFRS") was January 1, 2010; 2009 comparatives have not been restated.

Thailand revenue and funds flow from operations for the most recent three years are reflective of the production volumes and the realized price for the Company's oil. The majority of the funds flow contributed by the Canadian operations is management fees charged to its international subsidiaries according to the various joint operating agreements. Indonesia funds flow represents general and administrative costs for its personnel and office in the country less any amounts allocated to exploration and development. Working capital in the past three years had fluctuated consistently with funds flow from operations less capital expenditures.

Summary of Quarterly Results

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production (BOPD)	**1,826**	2,000	2,052	2,246	4,056	4,211	3,448	3,816
Funds flow from operations ($/bbl)								
Realized crude oil price	**104.29**	98.29	99.19	91.26	76.36	69.82	71.51	72.91
Royalties	**(5.56)**	(5.14)	(5.18)	(4.95)	(4.99)	(4.52)	(4.41)	(4.68)
Transportation and operating	**(19.69)**	(14.74)	(15.02)	(12.89)	(10.46)	(8.96)	(8.77)	(8.92)
General and administrative(1)	**(12.06)**	(6.23)	(4.86)	(6.57)	(1.99)	(2.40)	(1.80)	(3.79)
Interest income	**0.70**	0.63	0.96	0.19	0.09	0.05	0.10	0.10
Current taxes	**(24.29)**	(1.62)	(3.55)	(4.99)	(10.88)	(14.26)	(14.06)	(19.67)
Foreign new venture expenditures	**(1.09)**	-	-	-	0.15	-	(0.18)	-
Realized foreign exchange	**(0.28)**	0.37	(0.40)	(0.90)	(0.57)	0.05	0.51	(0.02)
Total	**42.02**	71.56	71.14	61.15	47.71	39.78	42.90	35.93
Financial ($thousands) except as indicated								
Oil revenue	**17,523**	18,083	18,521	18,449	28,495	27,050	22,436	25,038
Interest revenue	**118**	115	180	38	32	20	30	36
Net income(2)	**11,573**	3,882	4,608	3,928	9,833	5,403	4,216	4,070
Per share basic ($)	**0.21**	0.07	0.08	0.08	0.20	0.11	0.09	0.09
Per share diluted ($)	**0.21**	0.07	0.08	0.08	0.20	0.11	0.09	0.08
Capital expenditures(3)	**13,065**	15,364	22,495	19,972	13,638	11,012	16,409	20,269
Total assets	**371,276**	371,964	349,597	350,589	296,709	281,530	265,197	256,726
Shares outstanding (000s)	**56,685**	56,685	56,685	56,544	48,741	48,619	48,594	47,414

(1) General and administrative costs excluding accretion on decommissioning liabilities
(2) Net income attributed to common shareholders
(3) Excluding decommissioning provision, acquisition costs and foreign exchange

Q1 2010 – Funds flow from operations for the first quarter was $12.3 million compared to $9.9 million for the fourth quarter of 2009 and $15.2 million for the first quarter of 2009. Net income attributable to common shareholders was $4.1 million for the quarter versus $7.0 million in the fourth quarter of 2009. The decrease in net income attributable to common shareholders is the result of future income tax expense of $5.9 million in Q1 2010 versus a future income tax recovery of $0.7 million in Q4 2009. There was a $2.4 million increase in funds flow from operations compared to the fourth quarter of 2009. The financial results for Pan Orient in the first quarter of 2010 compared to the fourth quarter of 2009 reflect a 13% increase in oil production and a 1% increase in realized crude oil prices. Thailand oil sales for the first quarter of 2010 were 3,816 BOPD compared to 3,370 BOPD for the fourth quarter of 2009. In the first quarter of 2010, Pan Orient drilled two development wells and three exploration / appraisal wells in Concession L44. The five wells drilled (3.0 net) resulted in two new producing horizontal wells at Bo Rang "B" and one new Na Sanun East producing well at NSE-E3. For the first quarter of 2010, Thailand generated $12.4 million in funds flow from operations, compared to $11.1 million for the fourth quarter of 2009 primarily as a result of the 13% increase in oil sales volumes. For the quarter, transportation expenses were $2.52/bbl, operating expenses $6.40/bbl, general and administrative expenses $3.70/bbl and amounts to the Thailand government of $24.31/bbl resulted in after tax funds flow from operations of $36.01/bbl. Operating expenses decreased to $2.2 million or $6.40/bbl in the first quarter from $2.3 million or $7.35/bbl in the fourth quarter of 2009 as a result of higher production levels. General and administrative expenses increased to $1.3 million or $3.70/bbl in the first quarter from $0.7 million or $2.37/bbl in the fourth quarter of 2009 primarily as a result of severance payments. At March 31, 2010, working capital plus deposits was $25.4 million and the Company had no long-term debt.

Q2 2010 – Funds flow from operations for the second quarter was $13.5 million compared to $12.3 million for the first quarter of 2010 and $16.6 million for the second quarter of 2009. Net income attributable to common shareholders was $4.2 million for the quarter versus $4.1 million in the first quarter of 2010. The financial results for Pan Orient in the second quarter of 2010 compared to the first quarter of 2010 reflect a 9% decrease in oil production and a 2% decrease in realized crude oil prices. Thailand oil sales for the second quarter of 2010 were 3,448 BOPD compared to 3,816 BOPD for the first quarter of 2010. For the second quarter of 2010, Thailand generated $12.8 million in funds flow from operations, compared to $12.4 million for the first quarter of 2010; the increase was the result of the 10% reduction in oil sales volume being more than offset by a significant reduction in Special Remuneratory Benefit and income tax expenses resulting from the high level of reinvestment into Concession L44 and minimal reinvestment in Concession L53. For the quarter, transportation expenses were $2.56/bbl, operating expenses $6.21/bbl, general and administrative expenses $3.69/bbl and amounts to the Thailand government of $18.38/bbl resulted in after tax funds flow from operations of $40.66/bbl. Operating expenses decreased to $1.9 million or $6.21/bbl in the second quarter from $2.2 million or $6.40/bbl in the first quarter of 2010. Pan Orient drilled seven wells (4.2 net wells) in Thailand during the second quarter of 2010 with three appraisal wells at Bo Rang "B", three appraisal wells at the NSE-F1 field to further define fields discovered in 2009, and one NSE development well. The seven wells drilled (4.2 net) resulted in two new producing wells at Bo Rang B, one new producing well at Na Sanun East (NSE-B3), and one new producing well in the NSE-F1 field (NSE-F2). At June 30, 2010, working capital plus deposits was $24 million and the Company had no long-term debt.

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 non-current 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.

Commitments

The following is a summary of the estimated costs required to fulfill the Company's remaining contractual commitments at December 31, 2011:

Type of commitment	< 1 year	1-3 Years	4-5 Years	Thereafter	Total
Capital commitments	23,408	22,198	-	-	45,606
Office leases	525	419	-	-	944
Total	**23,933**	**22,617**	**-**	**-**	**46,550**

Transactions with Related Parties

In 2011 Pan Orient remitted to the Canada Revenue Agency $74,588 on behalf of the President and Chief Executive Officer of the Company. This amount represents the required tax remittance on the benefit related to the exercise of 90,000 stock options of the Company by the CEO. Pursuant to the agreement between the Company and the CEO, the Company will be reimbursed for the amount remitted plus accrued interest, at the HSBC Bank Canada reference rate plus 1%, by December 31, 2012. The repayment term was extended from April 30, 2012 to December 31, 2012 due to the extended blackout periods for trading in shares of Pan Orient which are currently in place, and which prevent trading in the shares acquired in the exercise of the stock options. Security for the payment consists of 18,000 Pan Orient common shares pledged to the Company. Interest accrued as at December 31, 2011 was $2,501.

Critical Accounting Policies and Estimates

The Company's consolidated financial statements are prepared in accordance with IFRS, which require management to make judgments, estimates and assumptions, which may have a significant impact on the financial statements. A summary of the Company's significant accounting policies can be found in Note 2 to the Company's December 31, 2011 audited consolidated financial statements. The following is a discussion of those accounting policies and estimates that are considered critical in the determination of the Company's financial results.

Property, Plant, and Equipment and Exploration and Evaluation Assets

Oil and natural gas assets and exploration and evaluation assets are accumulated in cost centers based on cash generating units ("CGU's"). Each CGU is subject to an impairment test. Impairment exists when the carrying value of the assets in the CGU exceed the recoverable amount. The recoverable amount is considered to be the higher of the fair value less costs to sell and value in use.

Reserve estimates can have a significant impact on net income and the carrying value of capital assets. The process of estimating reserves requires significant judgment based on available geological, geophysical, engineering, and economic data, projected rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to interpretation and uncertainty. Reserve estimates impact net income through depletion expense and the application of impairment tests. Revisions or changes in reserve estimates can have either a positive or a negative impact on net income and can impact the carrying amount of capital assets.

Decommissioning Liabilities
Amounts recorded for decommissioning liabilities and the related accretion expense requires the use of estimates with respect to the amount and timing of abandonment costs, inflation and interest rates.

Deferred Taxes

The provision for income taxes is based on judgments in applying income tax law and estimates on the applicable tax rates, timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

Financial Instrument

Refer to Note 12 of the audited consolidated financial statements for the twelve months ended December 31, 2011 for further disclosure with respect to financial instrument.

Changes in Accounting Policies

Adoption of International Financial Reporting Standards
Effective January 1, 2010 the Company transitioned from Canadian Generally Accepted Accounting Principles ("GAAP") to International Financial Reporting Standards ("IFRS"). The financial statements at December 31, 2011 are the first annual statements prepared under IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The consolidated financial statements include IFRS comparatives for 2010 and an opening balance sheet at January 1, 2010 showing the changes from Canadian GAAP to IFRS. Note 4 of the consolidated financial statements provide reconciliations between the Canadian GAAP figures and the IFRS results both on transition date of January 1, 2010 and for 2010.

Below is a summary of the differences between Canadian and IFRS results for 2010:

Reconciliation of net income	Note	Twelve months ended December 31, 2010
Net income attributable to common shareholders, Canadian GAAP		$ 20,574
Accretion on decommissioning liability	a	31
Stock-based compensation expense	b	(808)
Depletion	c	10,095
Income tax expense	d	(6,368)
Net income attributable to common shareholders, IFRS		$ 23,524

The significant accounting policy changes under IFRS are as follows:

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

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

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

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

d. Deferred taxes
Upon transition to IFRS, the Company's deferred tax liability is restated as a result of the transitional adjustments affecting the carrying value of property, plant and equipment, E&E assets, and decommissioning liabilities.

For pending changes in accounting policies refer to Note 3 of the audited consolidated financial statements for the twelve months ended December 31, 2011.

Additional Information

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