PAN ORIENT ENERGY CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

August 26, 2013

Management’s Discussion and Analysis

The following Management’s Discussion and Analysis (MD&A) of the operating and financial results of Pan Orient Energy Corp. is prepared effective August 26, 2013 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2013 and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2012. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

Forward-Looking Statements

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

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

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

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

The forward-looking statements contained herein are as of August 26, 2013 and are subject to change after this date. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive and as such undue reliance should not be placed on forward-looking statements. Except as required by applicable securities laws, with the exception of events or circumstances that occurred during the period to which the MD&A relates that are reasonably likely to cause actual results to differ materially from material forward-looking information that was previously disclosed to the public, the Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Non-IFRS Measures

Management uses and reports certain non-International Financial Accounting Standards (ÒIFRSÓ) 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 June 30**		**Six Months Ended June 30**	
	2013	**2012**	**2013**	**2012**
Cash flow from operating activities	**6,337**	14,574	**12,533**	30,713
Current tax recovery (expense)	**70**	(1,508)	**151**	(3,404)
Changes in non-cash working capital	**127**	(9,850)	**(486)**	(5,425)
Taxes paid	**3**	3,750	**3**	3,750
Funds flow from operations	**6,537**	6,966	**12,201**	25,634

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 CompanyÕs principal properties are divided into three distinct groups: 1) partially developed and undeveloped concessions located on-shore Thailand; 2) undeveloped interests in Indonesia Production Sharing Contracts (ÒPSCÕsÓ); and 3) undeveloped Canadian oil sands leases. Pan Orient is continually pursuing other oil and natural gas exploration acreage in Asia.

Pan Orient's Interests

All amounts reflect Pan Orient's interest as at June 30, 2013 (Note1)	Status	Net Square Kilometers	June 30, 2013 Financial Commitments (CDN$ thousands)	
Onshore Thailand Concessions				
L53/48 (100% working interest & operator)	Partially developed	975	$ 124	January 2014 to January 2016
L45/50 (20% working interest & operator) (Note 2 & 3)	Undeveloped	398	$ 168	April 2014
		1,373	$ 292	
Onshore Indonesia PSCÕs				
Citarum PSC, onshore west java (97% working interest & operator) (Note 4 & 5)	Undeveloped	861	$ 10,484	October 2015
Batu Gajah PSC, onshore South Sumatra (77% working interest & operator) (Notes 4)	Undeveloped	610	$ 6,708	January 2014
CPP South PSC, Central Sumatra (77% working interest & operator) (Note 4 & 6)	Undeveloped	-	-	
Onshore & Offshore Indonesia PSC				
East Jabung PSC, South Sumatra (100% working interest & operator) (Note 4 & 7)	Undeveloped	6,228	$ 13,623	November 2013 to November 2014
		9,757	$ 30,815	
Canadian Heavy Oil Sands				
Sawn Lake, Alberta (owned by Andora Energy Corporation) (Note 8)	Undeveloped	93	$ 2,449	September 2013 to October 2018
		93	$ 2,449	
Consolidated Total		11,223	$ 33,556	

(1) Amounts shown are calculated as at and for the period ended June 30, 2013. Commitments in Thailand and Indonesia are denominated in USD and translated at June 30, 2013 exchange rates. Commitments in Canada are denominated in CDN.

(2) Commitment shown is Pan Orient's 20% share of the gross USD $800,000 stated in the Concession L45 Agreement to drill one exploration well. Pan Orient has earned a 20% interest pursuant to the Farm-in Agreement as at June 30, 2013. Under the Farm-in Agreement Pan Orient can elect to drill two additional exploration wells to earn an additional 20% working interest for each well drilled. The Company can increase its working interest from 20% to a maximum of 60% based on its election to drill two wells.

(3) Concession L45/50 in Thailand at June 30, 2013 consisted of 1,990 square kilometers of gross exploration lands. A 20% interest in Concession L45/50 represents 398 net square kilometers of exploration lands. The original exploration term expires in April 2014, and at that time a renewal period of up to three years may be applied for. The Company can increase its working interest from 20% to a maximum of 60% based on its election to drill two wells.

(4) Work commitments related to these PSCs include amounts paid by Pan Orient on behalf of a partner's carried interest (3% for the Citarum PSC, 23% for the Batu Gajah and South CPP PSC's).

Indonesia financial commitments as provided above represent the initial 3-year firm exploration work program required under the PSC. With respect to Citarum, Batu Gajah and South CPP, extension of these initial 3-year firm exploration work program commitments have been successfully negotiated in the past with the Government of Indonesia ("GOI") to the dates indicated above. The deadlines for commitments and potential extension of the total exploration period with potential additional commitments is determined on a year-by-year basis as part of an annual submission of a work program which is approved by the GOI. Although extension of the deadline for completion of the 3-year firm exploration work program is a departure from the original contract, it is considered standard practice in Indonesia. In the past, such applications on behalf of Pan Orient have been approved by the GOI and management has no reason to believe that future requests will not be granted approval; however, there is no guarantee. Upon default of a commitment related to any of the first three years of a PSC, the operator is required to relinquish 15% of the original PSC area (the actual acreage relinquished is at the discretion of the operator) and to date, Citarum, Batu Gajah and South CPP have complied with these penalty relinquishments. Depending on the stage of the PSC, failure to fulfill the required 3-year firm commitments may also result in penalty payment equal to the unfulfilled commitments, other penalties and/or forfeiture of the PSC.

(5) *The Company believes that it has satisfied the Citarum PSC commitment for the two wells with the drilling operations of the Jatayu-1 and Cataka-1A wells, however this has not been finalized with the GOI and the GOI may have a different interpretation of the requirement. The amount show is based on the USD $5 million per well as stated in the PSC.*

(6) The Company has decided to relinquish the South CPP PSC. As part of the relinquishment, the Company is required to pay the GOI for the unfulfilled commitments. The Company has accrued CDN $2.8 million as at June 30, 2013 in its consolidated statements of financial position for the estimated unfulfilled commitments for the drilling of an exploration well and geological studies.

(7) The Company has submitted an application to the GOI to extend the East Jabung commitments. As at June 30, 2013 the application for extension has not yet been approved.

(8) Commitments for Canada consist of Andora's outstanding purchase orders on the capital expenditures on the Sawn Lake SAGD demonstration project, natural gas pipeline tie-in and tariff.

Thailand

At June 30, 2013, the Company has operated working interests in two concessions in Thailand: 100% working interest and operator Concession L53/48 (L53) and 60% working interest and operator Concession L45/50 (L45) (of which 20% has been earned through the seismic program conducted in 2013 and the Company can elect to earn an additional 40% with the drilling of two exploration wells). Concessions L53 and L45 are located approximately 60 kilometers west of Bangkok. Currently all of Pan Orient's production is crude oil from Concession L53 and is sold to a refinery owned by the Thai National Oil Company.

<u>Concession L53</u>

Concession L53 is partially developed and has oil production and an active drilling program. Oil production was 887 BOPD in the first half of 2013. Proved plus probable reserves, as evaluated by independent reservoir engineers, as at December 31, 2012 assigned to the Thailand Concession L53 was 1.1 million barrels net to Pan Orient. Of this, 0.6 million barrels (53%) were allocated to the sandstone L53A oilfield and 0.5 million barrels (47%) to the East sandstone L53D oilfield. Note that for the determination of crude oil reserves in Concession L53 at December 31, 2012, no reserves were assigned to the 2013 oilfield discoveries to date with the L53-DC1 well, the L53-EXT exploration well or the L53-G2 wells.

<u>Concession L45</u>

Concession L45 is an undeveloped property and as at June 30, 2013 no wells have been drilled by the Company and there is no production. No reserves have been assigned to Concession L45 at June 30, 2013. During the second quarter of 2013 the Company commenced a 3D seismic program which is expected to the completed by the end of the year.

Indonesia

At June 30, 2013, the Company owned interests in four PSCs, with a 97% operated working interest in the Citarum PSC, a 77% operated working interest in the Batu Gajah and South CPP PSCs, and a 100% interest in the East Jabung PSC. A 3% carried interest is held by a third party on the Citarum PSC and a 23% carried interest in held by a third party on the Batu Gajah and South CPP PSCs. There were no reserves assigned to any of the Indonesia PSCs at June 30, 2013.

<u>Citarum PSC</u>

At the Citarum PSC, the Cataka-1 exploration well commenced drilling on December 31, 2011 and was junked and abandoned due to severe drilling difficulties. The Jatayu-1 exploration well commenced drilling in March 2012 and was suspended in September due to drilling difficulties. Drilling recommenced in December utilizing slim hole drilling equipment. A severe overpressure gas zone encountered created an unacceptable level of well control risk and formation water present in gas zone suggested no commercial potential resulting in the well being abandoned. The Geulis-1 exploration well was drilled from early October to early November and the results indicated that the Geulis prospect is not deemed commercially viable on a stand-alone basis but may be commercially viable as part of a larger development should exploration success be achieved at the Cataka or Jatayu prospects. The well has been abandoned. The Cataka-1A well commenced drilling in early December 2012, suspended in January 2013 due to numerous drilling rig issues rig and recommenced drilling in May 2013 with a new drilling rig, well design and personnel. The well encountered numerous intervals of severely tectonically fractured shale that were highly unstable and given the drilling difficulties encountered to date and the low probability of reaching the final objective in the Paragi Limestone zone, the well has been abandoned. As at June 30, 2013, the Company has decided to discontinue drilling at the Citarum PSC and initiate a process to farm-out for exploration of the PSC. The Company recorded an impairment charge of $86.3 million for the exploration and evaluation costs (“E&E”) of the Citarum PSC during the three months ended June 30, 2013 and the carrying value of the E&E assets after the impairment loss recorded is nil. The Cataka-1A well was drilling until the end of July and drilling costs incurred after June 30, 2013 of approximately $3.5 million will result in an additional impairment charge in the third quarter of 2013.

<u>Batu Gajah PSC</u>
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 in the first half of 2011 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. The SE Tiung-1 exploration well drilled in mid-2011 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. On January 16, 2013 an additional 1,730 square kilometers (gross) of exploration lands were relinquished at the Batu Gajah PSC, to hold 793 square kilometers (gross). In the first quarter of 2013 the Company drilled two exploration wells and commenced a 400 square kilometer 3D seismic program at the Batu Gajah PSC. The Shinta-1 exploration well encountered sub-commercial oil in the primary Lower Talangakar sandstone target. The Buana-1 well was an updip appraisal of the North Tuba Obi-1 well drilled in 2011, which targeted natural gas in the Lower Talang Akar formation. Open hole wire line logs and pressure data indicated the sands to be water bearing. These results suggest the Buana-1 and the North Tuba Obi-1 fault compartments are not in communication and the gas accumulation encountered in the North Tuba Obi-1 well in 2011 is limited and sub-commercial. During the second quarter of 2013, the Company commenced the 400 square kilometer 3D seismic program and the major activity for the remainder of 2013 is to complete acquisition and evaluation of this seismic program which is focused on the eastern half of the PSC. It is anticipated that Pan Orient will farm-out a portion of the high working interests held in the Batu Gajah PSC prior to drilling. A final decision on timing and the amount of interest to be farmed out will be made by year-end when all the seismic data has been acquired, processed and interpreted.

<u>South CPP PSC</u>
The South CPP PSC was granted to the Company in 2009. A 227 kilometer 2D seismic program was completed in the second quarter of 2013 and after evaluation of the seismic program results, the Company has decided to relinquish the South CPP PSC and record an impairment charge of $13.3 million for the exploration and evaluation costs of the South CPP PSC as at June 30, 2013.

<u>East Jabung PSC</u>
At the East Jabung PSC the firm three year exploration commitment includes two wells and 2D seismic acquisition and processing. A 430 kilometer 2D seismic program has commenced in the East Jabung PSC with acquisition expected to be completed by year-end. It is anticipated that Pan Orient will farm-out a portion of the high working interests held in the East Jabung PSC prior to drilling. A final decision on timing and the amount of interest to be farmed out will be made by year-end when all the seismic data has been acquired, processed and interpreted.

Canada

Andora Energy Corporation, a private oil company in which Pan Orient has 71.8% 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) demonstration project 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 demonstration project location is on Andora 50% owned acreage within the Central Block of its Sawn Lake Property in the Peace River Oil Sands Region.

The demonstration project will start with a 2013 phase consisting of one SAGD well pair, a facility for steam generation, water handling and oil treating, and water source and disposal facilities. The total project has an estimated cost of $24.1 million. The wells will be drilled to a depth of approximately 650 meters and have a horizontal length of 750 meters. Work is proceeding on site preparation, purchase of components for the facility, pipeline installation and preparation for drilling. It is expected that the horizontal well pair will be drilling in the second half of September and steam operations commencing in early December 2013. Oil production is anticipated in the first quarter of 2014.

Subsequent to June 30, 2013, Andora’s joint venture partners in the demonstration project have provided notice of their election to participate for 50% in the demonstration project and have taken steps to secure funding for their share. The demonstration project will proceed with Andora as operator with a 50% working interest and a 50% working interest held by non-operators. Andora's 50% share of the 2013 phase of the demonstration project is expected to be $12.1 million.

Summarized financial information with respect to Andora is as follows:

($thousands)	As at and for the Three Months Ended June 30		As at and for the Six Months Ended June 30	
	2013	**2012**	**2013**	**2012**
Total assets	**84,761**	58,130	**84,761**	58,130
Total liabilities	**7,672**	6,877	**7,672**	6,877
Funds flow from operations	**(70)**	(128)	**(73)**	(206)
Net loss	**24**	110	**255**	220

Financial and Operating Summary	Three Months Ended June 30,		Six Months Ended June 30,		
(thousands of Canadian dollars except where indicated)	**2013**	2012	**2013**	2012	Change
FINANCIAL					
Oil revenue, before royalties and transportation expense	**8,475**	12,502	**15,919**	38,156	-58%
Funds flow from operations (Note 1)	**6,537**	6,966	**12,201**	25,634	-52%
Per share ï basic and diluted	**$ 0.11**	$ 0.12	**$ 0.21**	$ 0.45	-52%
Funds flow from operations by region (Note 1)					
Canada	**(65)**	(769)	**(188)**	(989)	-81%
Thailand	**6,632**	7,790	**12,492**	26,744	-53%
Indonesia	**(30)**	(55)	**(103)**	(121)	-15%
Total	**6,537**	6,966	**12,201**	25,634	-52%
Funds flow ï Thailand disposition net proceeds (Note 2)	**-**	157,952	**-**	157,952	-100%
Net income (loss) attributed to common shareholders	**(97,677)**	79,285	**(97,336)**	87,409	-211%
Per share ï basic and diluted	**$ (1.73)**	$ 1.40	**$ (1.72)**	$ 1.54	-211%
Working capital	**52,091**	180,775	**52,091**	180,775	-71%
Working capital & non-current deposits	**54,345**	184,536	**54,345**	184,536	-71%
Long-term debt	**-**	-	**-**	-	0%
Petroleum and natural gas properties					
Capital expenditures (Note 3)	**37,978**	23,980	**72,487**	45,451	59%
Shares outstanding (thousands)	**56,760**	56,685	**56,760**	56,685	0%
Funds Flow from Operations per Barrel (Note 1)					
Canada operations	**$ (0.75)**	$ (6.41)	**$ (1.17)**	$ (2.82)	-59%
Thailand operations	**76.27**	64.94	**77.78**	76.16	2%
Indonesia operations	**(0.35)**	(0.46)	**(0.64)**	(0.34)	88%
	$ 75.17	$ 58.06	**$ 75.97**	$ 73.00	4%
Capital Expenditures (Note 3)					
Canada	**2,268**	131	**4,492**	174	2482%
Thailand	**19,145**	13,156	**32,938**	26,769	23%
Indonesia	**16,565**	10,693	**35,057**	18,508	89%
Total	**37,978**	23,980	**72,487**	45,451	59%
Working Capital and Non-current Deposits					
Working capital and non-current deposits & long term accounts receivable ï beginning of period	**87,442**	48,501	**116,376**	51,632	125%
Funds flow from operations (Note 1)	**6,537**	6,966	**12,201**	25,634	-52%
Thailand disposition net proceeds (Note 2)	**-**	157,952	**-**	157,952	-100%
Thailand disposition ï sale of working capital (Note 2)	**-**	(4,591)	**-**	(4,591)	-100%
Recovery of 2012 taxes paid on Thailand disposition	**1,785**	-	**1,785**	-	100%
Capital expenditures (Note 3)	**(37,978)**	(23,980)	**(72,487)**	(45,451)	59%
Accrued relinquishment costs	**(2,778)**	-	**(2,778)**	-	100%
Foreign exchange impact on working capital	**(663)**	(312)	**(882)**	(640)	38%
Net proceeds on share transactions	**-**	-	**130**	-	100%
Working capital and non-current deposits & long term accounts receivable ï end of period	**54,345**	184,536	**54,345**	184,536	-71%
Canada Operations (excluding Thailand disposition)					
Interest income	**190**	68	**495**	137	261%
General and administrative expense (Note 4)	**(411)**	(1,061)	**(841)**	(1,317)	-36%
Current income tax recovery	**70**	-	**152**	-	100%
Realized foreign exchange loss	**86**	224	**6**	191	-97%
Funds flow from operations (Note 1)	**(65)**	(769)	**(188)**	(989)	-81%
Funds flow from operations per barrel					
Interest income	**$ 2.19**	$ 0.56	**$ 3.08**	$ 0.39	690%
General and administrative expense (Note 4)	**(4.74)**	(8.84)	**(5.24)**	(3.75)	40%
Current income tax recovery	**0.81**	-	**0.95**	-	100%
Realized foreign exchange loss	**0.99**	1.87	**0.04**	0.54	-93%
	$ (0.75)	$ (6.41)	**$ (1.17)**	$ (2.82)	-59%
Indonesia Operations					
General and administrative expense (Note 4)	**(47)**	(55)	**(122)**	(121)	1%
Realized foreign exchange gain	**17**	-	**19**	-	100%
Indonesia ï Funds flow from operations	**(30)**	(55)	**(103)**	(121)	-15%
Wells drilled					
Gross	**1**	-	**3**	1	200%
Net	**1.0**	-	**3.0**	0.8	275%

(thousands of Canadian dollars except where indicated)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Change
THAILAND OPERATIONS (Note 2)					
Oil sales (bbls)	**86,949**	119,970	**160,615**	351,158	-54%
Average daily oil sales (BOPD) by Concession					
L44, L33, SW1 (interests sold June 15, 2012)	**-**	798	**-**	990	-100%
L53	**955**	520	**887**	939	-5%
Total	**955**	1,318	**887**	1,929	-54%
Average oil sales price, before transportation (CDN$/bbl)	**$ 97.47**	$ 104.21	**$ 99.11**	$ 108.66	-9%
Reference Price (volume weighted) and differential					
Crude oil (Brent $US/bbl)	**$ 102.59**	$ 111.35	**$ 112.17**	$ 116.32	-4%
Exchange Rate $US/$Cdn	**1.01**	1.01	**1.02**	1.01	1%
Crude oil (Brent $Cdn/bbl)	**$ 103.13**	$ 111.94	**$ 114.23**	$ 117.97	-3%
Sale price / Brent reference price	**95%**	93%	**87%**	92%	-5%
Funds flow from operations (Note 1)					
Crude oil sales	**8,475**	12,502	**15,919**	38,156	-58%
Government royalty	**(425)**	(619)	**(784)**	(1,892)	-59%
Other royalty	**-**	-	**-**	(49)	-100%
Transportation expense	**(141)**	(249)	**(252)**	(693)	-64%
Operating expense	**(911)**	(1,761)	**(1,663)**	(3,887)	-57%
Field netback	**6,998**	9,873	**13,220**	31,635	-58%
General and administrative expense (Note 4)	**(388)**	(603)	**(752)**	(1,524)	-51%
Interest income	**22**	30	**25**	39	-36%
Current income tax	**-**	(1,510)	**(1)**	(3,406)	-100%
Thailand - Funds flow from operations (Note 1)	**6,632**	7,790	**12,492**	26,744	-53%
Funds flow from operations / barrel (CDN$/bbl) (Note 1)					
Crude oil sales	**$ 97.47**	$ 104.21	**$ 99.11**	$ 108.66	-9%
Government royalty	**(4.89)**	(5.16)	**(4.88)**	(5.39)	-9%
Other royalty	**-**	-	**-**	(0.14)	-100%
Transportation expense	**(1.62)**	(2.08)	**(1.57)**	(1.97)	-20%
Operating expense	**(10.48)**	(14.68)	**(10.35)**	(11.07)	-6%
Field netback	**80.48**	82.30	**82.31**	90.09	-9%
General and administrative expense (Note 4)	**(4.46)**	(5.03)	**(4.68)**	(4.34)	8%
Interest Income	**0.25**	0.25	**0.16**	0.11	42%
Current income tax	**-**	(12.59)	**(0.01)**	(9.70)	-100%
Thailand - Funds flow from operations (Note 1)	**$ 76.27**	$ 64.94	**$ 77.78**	$ 76.16	2%
Government royalty as percentage of crude oil sales	**5%**	5%	**5%**	5%	0%
SRB as percentage of crude oil sales	**0%**	0%	**0%**	0%	0%
Income tax as percentage of crude oil sales	**0%**	12%	**0%**	9%	-100%
As percentage of crude oil sales					
Expenses - transportation, operating and G&A	**17%**	21%	**17%**	16%	4%
Government royalty and income tax	**5%**	17%	**5%**	14%	-65%
Funds flow from operations, before interest income and realized foreign exchange gain	**78%**	62%	**78%**	70%	12%
Wells drilled					
Gross	**6**	1	**12**	7	71%
Net	**6.0**	0.6	**12.0**	5.0	140%

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

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

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

(4) General & administrative expenses, excluding non-cash accretion and gain on settlement of decommissioning provision.

2013 SECOND QUARTER OPERATING RESULTS

- Total corporate funds flow from operations for the second quarter of 2013 were $6.5 million compared with $5.7 million for the first quarter of 2013 and $7.0 million for the second quarter of 2012. Funds flow from operations per share was $0.11 for the second quarter of 2013.

- In the second quarter of 2013 there was a net loss attributable to common shareholders of $97.7 million, or $1.73 per share, compared with net income attributable to common shareholders of $0.3 million, or $0.01 per share, for the first quarter of 2013 and $79.3 million, or $1.40 per share, for the second quarter of 2012. The net loss in the second quarter of 2013 resulted from a $99.6 million write-down of exploration and evaluation assets associated with the Citarum and South CPP Production Sharing Contracts (ñPSCôsò) in Indonesia. In July 2013 Pan Orient announced that at Citarum PSC the Company was discontinuing drilling and initiating a farm-out process to seek a partner to continue exploration, and the Company intends to relinquish the South CPP PSC after review of the recent seismic data acquired. Net income attributable to common shareholders in the second quarter of 2012 had included an after tax gain of approximately $77.3 million on the disposition of certain subsidiaries in Thailand.

- Capital expenditures were $38.0 million for the second quarter of 2013 with $19.1 million in Thailand, $16.6 million in Indonesia and $2.3 million in Canada. Capital expenditures were partially funded by the $6.6 million of Thailand funds flow from operations and the remainder through existing working capital.

- At June 30, 2013 Pan Orient had $54.3 million of working capital and non-current deposits, and no long-term debt. In addition, Pan Orient had $8.7 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.

- Thailand

  - In the second quarter of 2013 Concession L53 averaged oil sales of 955 BOPD and generated $6.6 million in after tax funds flow from operations, or $76.27 per barrel. This compares with oil sales in the first quarter of 2013 of 819 BOPD and $5.9 million in after tax funds flow from operations, or $79.55 per barrel. Compared with the first quarter of 2013, oil sales increased 17% with the addition of new wells brought on during the quarter, principally the L53-G2 and L53-DC3 wells.

  - Oil sales in July 2013 from Concession L53 were 786 BOPD and estimated oil sales over the past 30 days has averaged 737 BOPD. Current Thailand oil production is approximately 894 BOPD and excludes the L53-G2 well which has been shut-in since July 14th when it completed its 90 production test period, at which time it was producing approximately 301 BOPD. The Company has submitted an application for an additional 90 day test period for the L53-G2 well and is expecting a response shortly. At this time we have no way of knowing if this 90 day test period extension will be granted. The L53-G2 well drilled in late March 2013 was a new pool discovery outside the existing production license areas and a production license and associated environmental approval is required for the new L53-G field before permanent production can commence. The Company applied for the new production license for the L53-G oil pool in mid-August. Until a production license is granted and environmental approval received for the L53-G field, wells in the L53-G field (including L53-G2, L53-G3ST3 and L53-G4) are shut-in at the end of their respective 90 day test periods as per government regulations. Historically, it has been an approximately 90 day period from the submission of the production license application to approval. Production environmental approval has historically taken substantially longer than 90 days, but in a number of cases approval has been granted to extend the 90 day production test period until the environmental approval has been received.

  - On a per barrel basis, after tax funds flow from operations of $76.27 in the second quarter of 2013 was consistent with the first quarter of 2013 and resulted from oil sales of $97.47, transportation expenses of $1.62, operating expenses of $10.48, general and administrative expenses of $4.46 and a royalty to the Thailand government of $4.89. Oil sales revenue during this period was allocated 17% to expenses for transportation, operating, and general & administrative, 5% to the government of Thailand for royalties, and 78% to Pan Orient.

  - Capital expenditures of $19.1 million at Concession L53 and Concession L45 during the second quarter of 2013 included $10.7 million in drilling costs for six wells, $5.8 million for 3D seismic programs, and $2.1 million for well workovers to evaluate different zones and add oil production, and $0.5 million of other costs.

  - The six well program in the second quarter of 2013 consisted of two appraisal wells in the L53-DC field (L53-DC3 and L53-DC4), the L53-G3 appraisal well in the L53-G field and three exploration wells (L53-F, L53-EXT and L53-EXT1). Drilling in the second quarter of 2013 resulted in four oil wells which added average oil production of 264 BOPD in the second quarter.

  - For the first half of 2013 the Company has drilled 12 wells in Concession L53 resulting in:

    - The L53-DC1, L53-DC2, L53-DC3 and L53-DC4 wells producing oil from a new pool discovery from a new fault compartment within the L53-D East oil field area. Production from the heavy oil zones encountered in the shallow zones at the L53-DC East field has been inconsistent over the past two months as various procedures have been applied in an effort to improve oil production and deal with sand production. One initiative was the installation of a progressive cavity pump and re-perforation of L53-DC3 well which achieved rates of approximately 308 BOPD before the pump motor burned out after approximately 10 days of production. New pumps have been ordered and installation of these progressive cavity pumps is planned for the L53-DC3 well and two other wells in the L53-DC field.

    - The L53-DEXT exploration well was drilled in the second quarter of 2013 into a new fault compartment at the L53-D field. This well produced approximately 40 BOPD of 14 degree API heavier oil from a shallow ñA3ò sands during testing within a new fault compartment at the L53-D field. The well is currently shut-in for testing of a radial jetting procedure to increase production.

  - The L53-G2 discovery well and L53-G3 appraisal well producing oil from the new L53-G oil pool.
  - Unsuccessful exploration wells at L53-DB1 (targeting the L53-D West prospect), L53-A4 (targeting the L53-H prospect), L53-F, and L53-EXT1 (targeting the deeper "A5" tp "A3" oil bearing sands that were logged in the L53-DC4 pilot well). The L53-DB1 well has been converted to a water disposal well.
  - The L53-A4ST1 exploration well drilled to test a small independent structural closure south east of the L53-A field and outside the L53-A production license area. This well encountered net oil pay in the "K40-A" sand and had produced on a 90 day production test at approximately 15 to 50 BOPD with a water cut of approximately 93%. L53-A4ST1 is currently shut-in and Pan Orient plans to convert the well to a water disposal well.

- Pan Orient drilled the L53-G4 appraisal well in July to complete this current drilling program. The well has just commenced testing and is currently producing approximately 147 BOPD with a water cut of 1.4% from the deepest of three potential zones within the "K40-C" sandstone interval. These results are from a very early cleanup stage in the testing with the stabilized longer term production rate likely to decrease from this initial rate.
- Pan Orient intends to drill the L53-A Central prospect in Concession L53 before the end of 2013 if environmental approval for drilling is received by October 2013 and the well site can be constructed outside of the rainy season.
- Pan Orient is completing interpretation of the 260 square kilometer 3D seismic survey covering the northern portion of Concession L53 and the adjacent lands in Concession L45 which will set up an additional exploration drilling program to commence in 2014.

➢ Indonesia

- The Company has conducted significant exploration activities in Indonesia during the first half of 2013 with exploration drilling at the Batu Gajah and Citarum PSC's and seismic programs at the Batu Gajah, South CPP and East Jabung PSC's to evaluate exploration potential.
- Capital expenditures in Indonesia of $16.6 million in the second quarter of 2013. During the first six months of 2013 capital expenditures in Indonesia were $35.1 million with $11.2 million at the Citarum PSC, $18.2 million at the Batu Gajah PSC, $4.5 million at the South CPP PSC and $1.2 million at the East Jabung. For the first six months of 2013, capital expenditures were $18.9 million for exploration drilling, $13.1 million for seismic programs, $2.3 million for capitalized general and administrative expenses, and $0.8 for other exploration expenses.
- Citarum PSC onshore Java (Pan Orient operator and 97% ownership)
  - Capital expenditures of $11.2 million in the first half of 2013 were associated with the continued drilling operations at Jatayu-1 and Cataka-1A.
  - The Jatayu-1 exploration well had commenced drilling in March 2012, suspended in September 2012 due to drilling difficulties and recommenced drilling in December 2012 utilizing slim hole drilling equipment. A severe overpressure gas zone encountered created an unacceptable level of well control risk in early January 2013 and drilling stopped above the primary target formation. Formation water present in gas zone suggested no commercial potential in the section that had been drilled above the primary objective. The well was abandoned in January 2013.
  - The Cataka-1A well commenced drilling in early December 2012, suspended in January 2013 due to numerous drilling rig issues and recommenced drilling in May 2013 with a new drilling rig, well design and personnel. The well encountered numerous intervals of severely tectonically fractured shale that were highly unstable and given the drilling difficulties encountered to date and the low probability of reaching the final objective in the Paragi limestone zone, the well has been abandoned.
  - Exploration drilling to date at the Citarum PSC has been very technically challenging and has not led to commercial discoveries. Pan Orient announced in July that the Company was initiating a farm-out process to seek a partner for continued exploration of the Citarum PSC. The Citarum PSC has significant prospectivity for commercial quantities of crude oil and natural gas, including the defined Cataka and Jatayu prospects, within a region of existing infrastructure and a large deficit of natural gas supply relative to demand, good fiscal terms and an attractive large cost recovery pool.
  - Pan Orient's has decided to discontinue drilling at the Citarum PSC and to initiate a farm-out process for continued exploration of the Citarum PSC. This results in the future value of the Citarum PSC dependent on the success of exploration drilling operations through the intended farm-out arrangement. As such, the Company is reducing the carrying value of the Citarum PSC exploration and evaluation assets to zero and is recording an impairment charge as at June 30, 2013 of $86.3 million for the exploration and evaluation assets of the Citarum PSC as at June 30, 2013. The Cataka-1A well was drilling until the end of July and drilling costs incurred after June 30, 2013 of approximately $3.5 million will result in an additional impairment charge in the third quarter of 2013.
- Batu Gajah PSC onshore Sumatra (Pan Orient operator and 77% ownership)
  - On January 16, 2013 an additional 1,730 square kilometers (gross) of exploration lands were relinquished at the Batu Gajah PSC, to hold 793 square kilometers (gross).
  - Capital expenditures in the first half of 2013 of $18.2 with $4.7 million for drilling of the Shinta-1 exploration well, $4.5 million for the Buana-1 appraisal well, $7.9 million of the 400 square kilometer 3D seismic program which

commenced in the second quarter and will continue into the third quarter and other capital expenditures of $1.1 million.

- The Shinta-1 exploration well encountered sub-commercial oil in the primary Lower Talangakar sandstone target and was abandoned.
- The Buana-1 well was an updip appraisal of the North Tuba Obi-1 well drilled in 2011 and results suggested the Buana-1 and the North Tuba Obi-1 fault compartments are not in communication and the natural gas accumulation encountered in the Lower Talang Akar formation of the North Tuba Obi-1 well in 2011 is limited and sub-commercial. The Buana-1 well continued drilling unsuccessfully to a total depth of approximately 3,800 feet, as required by the Indonesian oil and gas regulator and within the secondary basement reservoir objective, and was abandoned.
- Based on drilling results in the western portion of the Batu Gajah PSC during the first quarter of 2013, the decision was made to defer the planned Kemala-1 exploration well until after acquisition and interpretation of the 400 square kilometer 3D seismic program is completed.
- The major activity in the Batu Gajah PSC for the remainder of 2013 is to complete acquisition and evaluation of the 400 square kilometer 3D seismic program which is focused on the eastern half of the PSC. The estimated cost of this program is $15.8 million, of which $7.9 million was recorded in the first half of 2013.

- South CPP PSC onshore Sumatra (Pan Orient operator and 77% ownership).
  - Capital expenditures were $4.5 million in the first half of 2013 with $4.2 million for the 227 kilometer 2D seismic program which was completed in May 2013 and $0.3 million for capitalized general and administrative expenses and other capital expenditures.
  - After the evaluation of the seismic program results, the Company has decided to relinquish the South CPP PSC. As part of the relinquishment, it is expected that the Company is required to pay the Government of Indonesia for unfulfilled firm commitments in the amount of $2.8 million, and this amount has been accrued for as at June 30, 2013. As a result of the intended relinquishment the Company is reducing the carrying value of the South CPP PSC exploration and evaluation assets to zero and the Company is recording an impairment charge of $13.3 million for the exploration and evaluation assets of the South CPP PSC as at June 30, 2013.
- At the East Jabung PSC on-shore and offshore Sumatra (Pan Orient operator and 100% ownership) capital expenditures of $1.2 million related primarily to the initial costs of the 430 kilometer 2D seismic program which is expected to be completed by year-end at a total cost of $5.5 million.
- As at June 30, 2013 estimated commitments for Indonesia PSC's to October 2015 were $30.8 million for the Batu Gajah, Citarum and East Jabung PSC's.

➢ Canada

- Activities are currently underway at the Sawn Lake SAGD demonstration project. The demonstration project will start with a 2013 phase consisting of one SAGD well pair, a facility for steam generation, water handling and oil treating, and water source and disposal facilities with an estimated cost of $24.1 million. The wells will be drilled to a depth of approximately 650 meters and have a horizontal length of 750 meters. Work is proceeding on site preparation, purchase of components for the facility, pipeline installation and preparation for drilling. It is expected that the horizontal well pair will be drilling in the second half of September and steam operations commencing in early December 2013. Oil production is anticipated in the first quarter of 2014.
- Subsequent to June 30, 2013 our joint venture partners in the demonstration project provided notice of their election to participate for 50% in the demonstration project and have taken steps to secure funding for their share of the project. As part of the arrangement for the demonstration project, Andora is allowing our joint venture partners to repurchase the 3% gross overriding royalty on their 40% working interest in the 12 sections of the Central Block for $2.8 million, under certain terms and conditions.
- The demonstration project will now proceed with Andora as operator with a 50% working interest and a 50% working interest held by non-operators. Andora's share of the 2013 phase of the demonstration project is expected to be $12.1 million. To June 30, 2013 Andora has invested approximately $5.5 million in the demonstration project, with $4.5 million in the period of January to June 2013.

OUTLOOK

- Thailand

  Looking ahead to the remainder of 2013, Pan Orient will continue with heavy oil production initiatives that are currently underway involving the use of progressive cavity pumps and radial jetting technology. Processing and interpretation of the recently acquired approximately 260 square kilometer 3D seismic survey is ongoing and there have been very encouraging preliminary results. On the basis of this work, the exploration well at the "A Central" prospect, targeting the large 12 to 15 square kilometer (variance depending on stratigraphic level), will be fast tracked to December 2013, assuming the environmental EIA is approved prior to October 2013, in an attempt to get the well drilled prior to year end. In addition, a number of structures have been mapped in the region of the northern boundary of Concession L53 with one in particular showing direct hydrocarbon indicators in zones from 300 meters to 800 meters depth. Environmental EIA approvals are currently underway for these locations and two additional locations on the recently acquired 60% interest in Concession L45. Approval is anticipated towards the end of the third quarter of 2013 and drilling planned for 2014.

- Indonesia

  Seismic crews are currently active on the Batu Gajah and East Jabung PSC's. The large 400 square kilometer 3D seismic program on Batu Gajah is anticipated to be completed within the next two months and the 2D seismic survey on East Jabung is expected to be completed by year end. The 2D seismic program just completed on South CPP has been interpreted, and the Company has made the decision to relinquish the PSC due to the limited potential that was identified.

  Preparations are underway for the farm-out of a portion of Pan Orient's 97% interest in the Citarum PSC in exchange for potentially re-drilling of the Cataka and Jatayu prospects. The intent is to complete the farm-out process by second quarter of 2014 to allow dry season drilling in the third quarter of 2014.

  It is also anticipated at this time that Pan Orient may farm-out a portion of the high working interests held in both the Batu Gajah and East Jabung PSC's prior to drilling. A final decision on timing and the amount of interest to be farmed out will be made by year-end when all the seismic data has been acquired, processed and interpreted.

Oil Production and Revenue

Average Thailand daily oil sales were 955 BOPD for the three months ended June 30, 2013, compared to 819 BOPD in the first quarter of 2013 and 1,318 in the second quarter of 2012. The increased oil sales volume in the second quarter of 2013 compared to the first quarter of 2013 is primarily due to the commencement of production from four new wells during the second quarter of 2013. During the second quarter L53-DC2, L53-DC4ST1, L53-G2 and L53-G3ST1 from the new pool discoveries at the L53-DC and L53-G fields contributed 31,020 barrels of oil production (341 BOPD). The reduction in oil sales compared with the second quarter of 2012 and 2013 is primarily due to the sale of the Company's interest in Concession L44, L33 and SW1 on June 15, 2012.

Thailand crude oil sales were $8.5 million in the second quarter or 2013, compared with $7.4 million in the first quarter of 2013 and $12.5 million in the second quarter of 2012. The 15% increase in crude oil sales from the first quarter of 2013 is the result of an 18% increase in production volumes offset by a 4% decrease in the average realized price of crude oil. The Company's average realized price for its oil sales was $97.47 per barrel in the second quarter of 2013 compared to $101.05 per barrel in the first quarter of 2013 and $104.21 per barrel in the second quarter of 2012. The Company's realized sales price has historically been in the range of 85% to 95% of the Brent reference price, with the discount attributed to the high paraffin content of the petroleum. For the second quarter of 2013 the Company's realized price was 95% of Brent reference price.

Royalties

The Company paid royalties on the crude oil sales in Thailand to the Thai government on all production volumes. The royalty rate paid to the Thai government is based on a sliding scale, ranging from 5% on production of less than 2,000 BOPD to 15% on production in excess of 20,000 BOPD per concession.

Total royalties of $0.4 million for the three months ended June 30, 2013 were 31% lower than the $0.6 million reported in the comparable quarter of 2012 due to the corresponding decrease in oil revenues. The average Thai government royalty rate for the second quarter of 2013 of 5% is consistent with the royalty rate paid in 2012.

Transportation Expenses

Transportation expenses represent the expense 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. Transportation expense was $1.62 per barrel for the three months ended June 30, 2013 compared to $1.51 in the first quarter of 2013 and $2.08 in the second quarter of 2012. Transportation expense per barrel was relatively consistent between the first and second quarter of 2013 and lower than second quarter of 2012 due to the sale of Thailand interests in Concessions L44, L33 and SW1 on June 15, 2012 where these interests were further away from the refinery than Concession L53 which was retained by Pan Orient.

Operating Expenses

Operating expenses are associated with the oil production in Thailand. Operating costs were $0.9 million ($10.48 per barrel) in the second quarter of 2013 compared to $0.8 million ($10.21 per barrel) in the first quarter of 2013 and $1.8 million ($14.68 per barrel) in the second quarter of 2012. On a per barrel basis, operating expenses were relatively consistent between the first and second quarter of 2013 and were lower than the second quarter of 2012 due to the decrease of water disposal costs from Pan Orient being able to use its own water disposal facilities in 2013.

Depletion and Depreciation (D&A)

	As at and for the Three Months Ended June 30		As at and for the Six Months Ended June 30	
($thousands)	**2013**	**2012**	**2013**	**2012**
Depletion of Thailand PP&E(1)	**3,177**	2,251	**6,768**	6,584
Depreciation of office equipment and assets	**88**	74	**174**	138
Total D&A	**3,265**	2,325	**6,942**	6,722
Total D&A - $/bbl	**37.55**	19.38	**43.22**	19.14

(1) Including decommissioning cost

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

Thailand costs subject to depletion in the second quarter of 2013 included $9.3 million (second quarter of 2012 - $93.3 million) of estimated future development costs for proved plus probable reserves. D&A per barrel for the three and six months ended June 30, 2013 is higher than for the three and six months ended June 30, 2012 as a result of the L53-DC field having oil production for the periods but estimated reserves have not yet been determined for the calculation.

Taxes

	As at and for the Three Months Ended June 30		As at and for the Six Months Ended June 30	
($thousands)	**2013**	**2012**	**2013**	**2012**
Canadian income tax (recovery) expense	**(1,855)**	16,091	**(1,937)**	16,091
Thai income tax expense(1)	**-**	1,508	**1**	3,404
Special remuneratory benefit(2)	**-**	-	**-**	-
Total current tax (recovery) expense	**(1,855)**	17,599	**(1,936)**	19,495
Deferred tax expense	**2,620**	2,427	**3,830**	8,166
Total tax expense	**765**	20,026	**1,894**	27,661

(1) Income tax in Thailand is calculated at 50% (2012 – 50%) on petroleum income and 20% (2012 – 23%) on non-petroleum income. Taxable income in Thailand is comprised of cash flow from operations before changes in working capital less capital expenditures and other permitted deductions.

(2) Thailand Special remuneratory benefit ("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.

At June 30, 2013 the Company had a Thai tax payable of one thousand dollars related to taxes on non-petroleum revenue. The Company continues to utilize non-capital and SRB losses from at Concession L53 to shelter its petroleum income from income tax and SRB tax. It is uncertain when SRB will be payable on Concession. Concession L45 does not have sales of oil or natural gas, and all operating expenses and capital expenditures add to SRB loss carry forward deductions. Because of the deductions allowed for capital spent, the effective rates of these taxes can vary significantly from the actual tax rates. For the six months ended June 30, 2013 SRB was 0.0% (2012 – 0.0%) of total revenue and income tax was less than one percent (2012 – 4.5%) of total revenue.

In Canada, $1.9 million of taxes receivable consisted of an expected refund of 2012 tax installments paid in relation to the gain on the sale of Thailand subsidiaries and the recovery from utilizing non-capital losses.

General and Administrative (G&A) Expenses

($thousands)	As at and for the Three Months Ended June 30		As at and for the Six Months Ended June 30 2013	2012
Thailand	**520**	706	**973**	1,748
Indonesia	**1,583**	865	**3,077**	1,604
Canada	**458**	1,093	**946**	1,380
Total G&A, net of overhead recoveries(1)	**2,561**	2,664	**4,996**	4,732
Allocated to capital projects(2)	**(1,715)**	(945)	**(3,281)**	(1,770)
Cash G&A	**846**	1,719	**1,715**	2,962
Accretion expenses	**25**	76	**46**	156
Gain on settlement of decommissioning provision	**(15)**	-	**(15)**	-
Total G&A	**856**	1,795	**1,746**	3,118
Cash G&A - $/bbl	**9.73**	14.33	**10.68**	8.44
Total G&A - $/bbl	**9.84**	14.96	**10.87**	8.88

(1) 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.

(2) Capitalized G&A allocated to capital projects represents compensation and other costs associated with property acquisition, and exploration and development activities. Capitalized G&A relates to exploration and development activities on the L53 concession 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 at each reporting period.

General and administrative expenses before allocation to capital projects were consistent between the second quarter of 2012 and 2013. The decrease in the G&A expense before capitalization between the second quarter of 2012 and 2013 was due to a non-routine special bonus paid out in Canada to management and the reduction of staffing in Thailand as a result of the sale of the Thailand subsidiaries in June 2012. The decrease is offset by the increase in G&A in Indonesia due to the addition of technical staff employed and the Company's Chief Operating Officer appointed in 2013 stationed in Indonesia increased the expatriate personnel expense.

Impairment Loss

During the three months ended June 30, 2013, the Company recorded an impairment loss of $99.6 million (2012 - $0) on its Indonesia exploration and evaluation assets ("E&E"). The impairment loss was related to the Indonesia PSCs below:

<u>Indonesia – Citarum PSC</u>
The Company decided to discontinue drilling at the Citarum PSC and initiate a farm-out process for continued exploration of the Citarum PSC results in the future value of the Citarum PSC being determined by the exploration drilling operations through the intended farm-out arrangement. As a result of this decision, the Company recorded an impairment loss of $86.3 million related to the Citarum PSC. After deducting the impairment loss, the carrying amount of the E&E assets for the Citarum PSC was assessed as nil at June 30, 2013 and recovery on any of the impairment losses in the future is dependent on the results of the farm-out. Furthermore, the drilling of the Cataka-1A well was not completed until the end of July 2013 and the remaining drilling costs incurred after June 30, 2013 of approximately $3.5 million will result in an additional impairment charge in the third quarter of 2013.

<u>Indonesia – South CPP PSC</u>
After the Company evaluated the seismic program results performed at the South CPP PSC, the Company decided to relinquish the South CPP PSC. As a result of the relinquishment, the Company recorded an impairment loss of $13.3 million on its E&E assets related to the South CPP PSC. The amount is comprised of a $10.5 million impairment loss recognized on E&E assets and an accrual of $2.8 million estimated for the relinquishment costs that is anticipated to pay the GOI for the unfulfilled firm commitments. The recoverable amount of the E&E assets for the South CPP PSC was assessed as nil at June 30, 2013.

Capital Invested [1]

		Six Months Ended June 30		
	2013		2012	
	$000s	**Net wells drilled**	**$000s**	**Net wells drilled**
Capital expenditures				
Thailand	**32,938**	**12.0**	26,769	5.0
Indonesia [2]	**35,057**	**3.0**	18,508	0.8
Canada	**4,492**	**-**	174	-
Total capital expenditures	**72,487**	**15.0**	45,451	5.8

(1) Excluding foreign exchange and decommissioning provision.

(2) Amounts recorded in the MD&A and financial statements for capital expenditures related to the Indonesia 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.

Thailand

Total capital expenditures for Concession L53 were $13.6 million and $16.5 million for the first and second quarter of 2013. On a year to date basis, the capital expenditures are mainly attributable to drilling of 12 wells, the 260 square kilometer 3D seismic survey and workovers. Capital expenditures for Concession L45 were $2.8 million during the six months ended June 30, 2013 for work performed on the 3D seismic survey and geological studies.

Indonesia

Capital expenditures among the four Indonesia PSCs were $18.5 million and $16.6 million for the first and second quarter of 2013 respectively. The capital spending in Indonesia during the six months ended June 30, 2013 primarily consisted of the drilling of the Shinta-1 and Buana-1 wells in the Batu Gajah PSC and the Cataka-1A well drilled in the Citarum PSC. Other capital expenditures in Indonesia included the work performed on the seismic programs at the Batu Gajah, South CPP and East Jabung PSCs, and capitalized G&A.

Canada

Capital expenditures in Canada were $2.2 million and $2.3 million for the first and second quarter of 2013 respectively mainly consisted of equipment purchase, engineering designs and construction related costs for the SAGD demonstration project.

Liquidity and Capital Resources

Pan Orient's capital program in the second quarter of 2013 was $38.0 million and was financed with $12.5 million in funds generated from operating activities in Thailand and the remainder from existing working capital. Pan Orient's working capital position is forecasted regularly and the Company plans to fund future capital expenditures and commitments with existing cash balances, equipment inventory and expected cash flows from Thailand operations. At June 30, 2013 the Company's working capital plus non-current deposits of $54.3 million exceeded estimated outstanding commitments of $33.6 million by $20.7 million. At June 30, 2013 the Company had $8.7 million of equipment inventory to be utilized for future Thailand and Indonesia operations. The equipment inventory is included in exploration and evaluation costs in the statement of financial position.

At June 30, 2013 Pan Orient's cash and cash equivalents of $66.1 million, compared to $100.5 million at March 31, 2013 and $133.8 million at December 31, 2012, were held in the jurisdictions where the Company operates as follows:

($thousands)	**June 30, 2013**	**March 31, 2013**	**December 31, 2012**
Cash held in Canada	**62,098**	93,414	125,640
Cash held in Thailand	**1,528**	4,200	2,703
Cash held in Indonesia	**2,459**	2,920	5,493
Total cash	**66,085**	100,534	133,836

Working capital plus non-current deposits at June 30, 2013 was $54.3 million compared to $87.4 million at March 31, 2013 and $184.5 million at June 30, 2012.

Non-current cash deposits of $2.3 million at June 30, 2013 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 (thousands)	As at August 26, 2013	As at June 30, 2013
Common shares	56,760	56,760
Stock options	5,259	5,259
Total	62,019	62,019

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:

	2013		**2012**				**2011**	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Rate at end of period								
Thai baht / CDN $ exchange	**29.35**	28.49	30.42	31.09	30.55	30.59	30.69	29.63
CDN $ / US $ exchange	**1.05**	1.02	0.99	0.98	1.03	1.00	1.02	1.04

A fundamental aspect of the Company's treasury function is mitigating the effect of foreign currency exchange fluctuations to the greatest 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. Thailand and Indonesia use the US dollars as their functional currencies for reporting, which are translated to Canadian dollars at each reporting period with the unrealized translation gain or loss being recognized in accumulated other comprehensive income ("AOCI"). The second quarter of 2013 the Canadian dollar depreciated against the US dollar, but appreciated against the Thai baht, which resulted in an unrealized gain on the Company's foreign operations. AOCI in the consolidated statement of financial position is reported as follows:

	As at and for the Three Months Ended June 30		**As at and for the Six Months Ended June 30**	
($thousands)	**2013**	**2012**	**2013**	**2012**
AOCI, beginning of period	**1,244**	(198)	**(4,297)**	887
Unrealized foreign currency translation gain (loss)	**2,712**	(497)	**8,253**	(1,582)
AOCI, end of period	**3,956**	(695)	**3,956**	(695)

The unrealized foreign currency translation gain (loss) is as follows:

	As at and for the Three Months Ended June 30		**As at and for the Six Months Ended June 30**	
($thousands)	**2013**	**2012**	**2013**	**2012**
Foreign exchange gain (loss) related to Thailand	**(1,821)**	(52)	**1,161**	446
Foreign exchange gain related to Indonesia	**4,533**	2,410	**7,092**	827
Impact on AOCI from disposal of Thai interest	**-**	(2,855)	**-**	(2,855)
Total change in AOCI	**2,712**	(497)	**8,253**	(1,582)

Summary of Quarterly Results

	2013		2012				2011	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Production (BOPD)	**955**	819	1,029	842	1,318	2,541	1,826	2,000
Funds flow from operations ($/bbl)								
Realized crude oil price	**97.47**	101.05	97.21	100.78	104.21	110.97	104.29	98.29
Royalties	**(4.89)**	(4.87)	(4.78)	(5.03)	(5.16)	(5.72)	(5.56)	(5.14)
Transportation & operating	**(12.10)**	(11.72)	(19.92)	(18.84)	(16.75)	(11.12)	(19.69)	(14.74)
Field Netback	**80.48**	84.46	72.51	76.90	82.30	94.13	79.04	78.41
General and administrative[1]	**(9.74)**	(11.79)	(16.41)	(15.59)	(14.33)	(5.38)	(12.06)	(6.23)
Interest income	**2.44**	4.18	3.91	4.69	0.82	0.34	0.70	0.63
Foreign new ventures	**-**	-	-	-	-	-	(1.09)	-
Realized foreign exchange	**1.18**	(1.06)	1.68	(22.77)	1.86	(0.14)	(0.28)	0.37
Current income tax	**0.81**	1.10	-	(0.01)	(12.59)	(8.20)	(24.29)	(1.62)
Funds flow from operations	**75.17**	76.89	61.69	43.22	58.06	80.75	42.02	71.56
Financial ($thousands) except as indicated								
Oil revenue	**8,475**	7,444	9,198	7,808	12,502	25,654	17,523	18,083
Interest revenue	**212**	308	370	363	98	78	118	115
Funds flow ï Thailand disposition net proceeds[2]	**-**	-	785	553	157,952	-	-	-
Net income (loss)[3]	**(97,677)**	341	859	(1,626)	79,285	8,124	11,573	3,882
Per share basic ($)	**(1.73)**	0.01	0.02	(0.03)	1.40	0.14	0.21	0.07
Per share diluted ($)	**(1.73)**	0.01	0.02	(0.03)	1.40	0.14	0.21	0.07
Capital expenditures[4]	**37,978**	34,509	20,539	12,021	23,980	21,471	13,065	15,364
Total assets	**295,155**	383,691	381,511	367,263	419,313	396,468	371,276	371,964
Shares outstanding (thousands)	**56,760**	56,760	56,720	56,720	56,685	56,685	56,685	56,685

(1) General and administrative costs excluding accretion expense and gain on settlement of decommissioning provision.

(2) Thailand Concessions SW1, L44 and L33 were sold on June 15, 2012. Proceeds of $185.3 million less transaction costs of $11.3 million and estimated tax of $14.7 million results in proceeds net of expenses of $159.3 million. After deducting $79.6 million related to the carrying value of petroleum and equipment, exploration and evaluation costs, and working capital sold (including the elimination of the associated deferred tax liabilities, employee pension liabilities, and decommissioning provision). The net after tax gain on sale is $79.7 million.

(3) Net income (loss) attributed to common shareholders

(4) Excluding decommissioning provision, acquisition costs and foreign exchange

Q3 2011 ï Funds flow from operations of $13.2 million ($71.56/bbl) was relatively consistent with the previous quarterôs 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 five (3.0 net) wells in Thailand, wellsite preparation for upcoming drilling programs 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 ï Funds flow from operations of $7.1 million ($42.02/bbl) was impacted by a 9% reduction in oil production, current Thailand income taxes in the quarter of $4.1 million and increased operating expenses and general and administrative expenses in Thailand partially offset by a 6% increase in the realized price per barrel for oil. Net income attributed to common shareholders of $11.6 million for the quarter reflects a $10.2 million reduction in future tax expense partially offset by higher depletion. Capital expenditures of $13.1 million in the quarter were for the drilling of eight gross (5.2 net) wells in Thailand, wellsite preparation in Indonesia for the three well Citarum drilling program and commencement of drilling the Cataka-1 exploration well (0.8 net well) in Indonesia December 31st. At December 31, 2011 the Company had no long-term debt and working capital plus non-current deposits of $51.6 million, which exceeded estimated outstanding commitments of $45.1 million by $6 million.

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

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

Q3 2012 ï Corporate funds flow from operations for the third quarter of 2012 was $3.3 million, or $0.06 per share. The third quarter of 2012 is the first quarter of operations following the sale of the majority of interests in Thailand. Thailand operations in the third quarter consist only of Concession L53, which had average oil production of 842 BOPD. Net loss attributable to common shareholders was $1.6 million, or a loss of $0.03 per share, for the third quarter of 2012. Total capital expenditures for the third quarter of 2012 were $12.0 million, with $4.0 million in Thailand for development of the L53-D field and inventory, and $8.0 million in Indonesia primarily related to the drilling program at the Citarum PSC.

Q4 2012 ï Corporate funds flow from operations was $5.8 million. Funds flow from operations in Thailand was $6.3 million with average daily oil sales of 1,029 BOPD from Concession L53 in Thailand, representing $66.66 on per barrel basis. Net income attributable to Common Shareholders was $0.9 million ($0.02 per share) for the quarter. The Company had capital expenditures of $20.5 million with $6.7 million in Thailand for equipment inventory and in preparation for the 2013 drilling program, $13.5 million in Indonesia focused on drilling at the Citarum PSC, and $0.3 million in Canada for initial work relating to the SAGD demonstration project of Andora at Sawn Lake, Alberta. The Company spudded two wells (1.6 net wells) at the Citarum PSC in Indonesia with the Jatayu-1 and Cataka-1A exploration wells. At December 31, 2012, working capital plus non-current deposits was $116.4 million and the Company had no long-term debt.

Q1 2013 ï Corporate funds flow from operations was $5.7 million. Funds flow from operations in Thailand was $5.9 million with average daily oil sales of 819 BOPD from Concession L53 in Thailand, representing $79.55 on per barrel basis. Net income attributable to Common Shareholders was $0.3 million ($0.01 per share) for the quarter. The Company had capital expenditures of $34.5 million with $13.8 million in Thailand for seismic and the drilling of six wells, $18.5 million in Indonesia for well operations at Jatayu-1 and Cataka-1A in the Citarum PSC, drilling of the Shinta-1 and Buana-1 wells at the Batu Gajah PSC, and seismic programs at the Batu Gajah, South CPP and East Jabung PSCõs, and $2.2 million in Canada for work relating to the SAGD demonstration project of Andora at Sawn Lake, Alberta. At March 31, 2013, working capital plus non-current deposits was $87.4 million and the Company had no long-term debt.

Q2 2013 ï Corporate funds flow from operations was $6.5 million. Funds flow from operations in Thailand was $6.6 million with average daily oil sales of 955 BOPD from Concession L53, representing $76.27 on per barrel basis. Net loss attributable to Common Shareholders was $97.7 million ($1.73 per share) for the quarter resulting from a $99.6 million write-down of exploration and evaluation assets associated with the Citarum and South CPP PSCõs in Indonesia. The Company had capital expenditures of $38.0 million with $19.1 million in Thailand for seismic and the drilling of six wells, $16.6 million in Indonesia for well operation at the re-drilled of the Cataka-1A in the Citarum PSC and seismic programs at the Batu Gajah, South CPP and East Jabung PSCõs and $2.3 million in Canada for equipment purchase, engineering designs and construction related costs for the SAGD demonstration project of Andora at Sawn Lake, Alberta. At June 30, 2013, working capital plus non-current deposits was $54.3 million and the Company had no long-term debt.

Additional Information

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