



PAN ORIENT ENERGY CORP.

**2009 MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

MANAGEMENT'S DISCUSSION AND ANALYSIS

April 12, 2010

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 12, 2010 and should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2009 and December 31, 2008. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("GAAP").

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.

Forward-Looking Statements

The MD&A contains forward-looking statements within the meaning of securities laws, including the "safe harbour" provisions of Canadian securities legislation. 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 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 12, 2010 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 for a period that is not yet complete 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-GAAP Measures

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

Funds flow from operations (“funds flow”), which represents cash flow from operating activities prior to changes in non-cash working capital 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 GAAP:

(\$000s)	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Cash flow from operating activities	11,499	36,280	5,807	117,234
Changes in non-cash working capital	(1,554)	(11,307)	47,143	(53,337)
Funds flow from operations	9,945	24,973	52,950	63,897

Field netback is calculated as average unit sales price less royalties, transportation costs and operating expenses. It represents the cash margin for every barrel of oil equivalent sold and is a common benchmark used in the oil and gas industry. There is no GAAP measure that is reasonably comparable to netback and the calculation is presented in the “Operations Summary” section.

Funds flow from operations, funds flow from operations per barrel, funds flow from operations per share (basic and diluted), and field netback do not have standardized meanings prescribed by Canadian GAAP and therefore are unlikely to 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 Canadian GAAP. All references to funds flow throughout this report 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 on-shore Indonesia; and 3) undeveloped Canadian oil sands leases. Pan Orient is continually pursuing other oil and natural gas exploration acreage in Asia.

Thailand

The Company has interests in four on-shore concessions in Thailand: Concession SW1A (SW1A); Concession 44/43 (L44); Concession 33/43 (L33); and Concession 53/48 (L53). The SW1A concession is developed, L44 is partially developed and concessions L33 and L53 are undeveloped. Pan Orient is the operator for all four concessions with a 60% working interest in the first three and a 100% working interest in the fourth. Pan Orient produces crude oil with 95% of production from L44, and the remaining 5% from SW1A. Currently all of the Company's production is sold to a refinery owned by the Thai National Oil Company. Proved plus probable reserves at December 31, 2009, as evaluated by independent reserve engineers, were 36.7 MMbbl net to Pan Orient. The current political situation in Thailand has not affected Pan Orient's operations in any way to date and is believed by management to be unlikely to affect operations in the future.

Twenty-two wells were drilled during the year ended December 31, 2009 in Concession L44, resulting in 17 producing wells and one well awaiting testing of a secondary zone. This represents a success rate of 74% and included oil discoveries at Bo Rang, NSE-F1, L44-W, Si Thep, NSE-H3, and NSE-J1 plus significant appraisal wells at NSE-E2 and NSE-H1.

Pan Orient drilled the first two exploration wells at Concession L53 (100% working interest) during the fourth quarter of 2009 and work on these wells continued into the first quarter of 2010. The L53-A well has produced approximately 13,500 barrels of crude oil to tanks under a 90 day production test which expired on April 2, 2010. A contingent resource report for the 2009 L53-A oil discovery is anticipated to be completed by late April 2010 and will form the basis of a production license application to be submitted to the Thailand Department of Mineral Fuels.

The Company expects to drill an additional 34 wells on Concessions L44, L53 and L33 in 2010.

Indonesia

The Company owns a 90% working interest in the Batu Gajah production sharing contract (PSC) located onshore south Sumatra, a 69% operated working interest in the Citarum PSC located onshore west Java, and a 90% operated working interest in the South CPP PSC (formerly the Pamai Taluk joint study agreement) located onshore south central Sumatra.

Amounts recorded in the financial statements and work commitments related to these PSCs include a partner's carried interest of 10% for Batu Gajah, 11% for Citarum and 10% for South CPP.

At Batu Gajah, the seismic program for 500 kilometres of 2D data commenced in September 2009 and is expected to be completed in the first half of 2010. The Company plans to drill three exploration wells in the second half of 2010. The Citarum block has one previously-drilled well, Pasundan-1, which was drilled by the former operator, tested by Pan Orient in the fourth quarter of 2008, into 2009 and then subsequently abandoned. The program for an initial 1,100 km of 2D seismic continues with an expected completion date in the first half of 2010. Exploration drilling of three exploration wells is tentatively scheduled to commence in 2010 upon the completion of the initial drilling program at Batu Gajah. The exact timing of the drilling program is largely a function of Ministry of Forestry approvals for proposed well locations. The Company has no drilling planned on South CPP until 2012.

Canada

Through its 53.2% ownership of the privately-held Andora Energy Corp. ("Andora"), Pan Orient has interests in heavy oil sand leases in Sawn Lake, within the central Alberta Peace River Oil Sands area.

The Sawn Lake property is in the pre-production stage and will not have production revenue until oil production begins. During 2009, Andora received approval from Alberta Environment and the Energy Resources Conservation Board to build and operate a Steam Assisted Gravity Drainage ("SAGD") project. The pilot location is on Andora 100% owned acreage.

The objective of the pilot is to demonstrate the feasibility of producing bitumen from the Bluesky Zone at economic rates and the technical feasibility of the SAGD thermal recovery process. The pilot will consist of a single well pair and associated steam injection and bitumen production facilities for an estimated cost of \$15 million. All season access into the site was completed in December 2009. The timing for equipment procurement, construction of the project facility and drilling of the well pair has yet to be determined.

Probable reserves at December 31, 2009, as evaluated by independent reserve engineers, were 131.8 MMbbl net to Andora (70.1 MMbbl net to Pan Orient).

Operations Summary

(thousands of Canadian dollars except where indicated)

	Three Months Ended December 31,		Year Ended December 31,		Change
	2009	2008	2009	2008	
FINANCIAL					
Oil revenue, before royalties and transportation expense	22,280	36,329	98,236	147,554	-33%
Funds flow from operations (Note 1)	9,945	24,973	52,950	63,897	-17%
Per share – basic	\$ 0.21	\$ 0.55	\$ 1.15	\$ 1.40	-18%
Per share – diluted	\$ 0.20	\$ 0.52	\$ 1.10	\$ 1.31	-16%
Funds flow from operations by region (Note 1)					
Canada	(1,062)	5,149	(1,716)	2,490	
Thailand	11,063	20,102	54,811	61,865	-11%
Indonesia	(56)	(278)	(145)	(458)	-68%
Total	9,945	24,973	52,950	63,897	-17%
Net Income	6,996	10,813	15,145	31,751	-52%
Per share - basic	\$ 0.15	\$ 0.24	\$ 0.33	\$ 0.70	-53%
Per share - diluted	\$ 0.14	\$ 0.22	\$ 0.31	\$ 0.65	-52%
Working capital	28,659	42,087	28,659	42,087	-32%
Working capital plus deposits	32,738	46,386	32,738	46,386	-29%
Long-term debt	-	-	-	-	
Capital expenditures (Note 2)	18,960	16,598	63,495	40,491	57%
Acquisition – Indonesia (Note 3)	-	516	-	20,180	
Shares outstanding (thousands)	46,313	45,568	46,313	45,568	2%
Funds flow from operations per barrel					
Canada operations	\$ (3.42)	\$ 8.02	\$ (1.04)	\$ 1.37	
Thailand operations	35.69	31.30	33.40	34.17	-2%
Indonesia operations - G&A expense	(0.18)	(0.43)	(0.09)	(0.26)	-65%
	\$ 32.09	\$ 38.88	\$ 32.27	\$ 35.28	-9%
Capital Expenditures (Note 2)					
Canada	567	909	917	1,827	-50%
Thailand	16,351	10,460	51,996	31,319	66%
Indonesia	2,042	5,229	10,582	7,345	44%
Total	18,960	16,598	63,495	40,491	57%
Working Capital and Deposits					
Working Capital & Deposits - beginning of period	39,830	40,022	46,386	40,763	14%
Funds flow from operations (Note 1)	9,945	24,973	52,950	63,897	-17%
Capital expenditures (Note 2)	(18,960)	(16,598)	(63,495)	(40,491)	57%
Indonesia acquisition	-	1,131	-	(15,157)	
Foreign exchange impact on working capital	1,338	(2,803)	(4,214)	(1,964)	115%
Net (expenditures) proceeds on share transactions	585	(339)	1,111	(662)	
Working Capital & Deposits - end of period	32,738	46,386	32,738	46,386	-29%
Canada Operations					
Interest income	12	70	43	485	-91%
General and administrative expense	(359)	(989)	(1,450)	(3,134)	-54%
Realized foreign exchange gain (loss)	(692)	6,179	(247)	5,870	-104%
Foreign new ventures expenditures	(23)	(111)	(62)	(731)	-92%
Funds flow from operations	(1,062)	5,149	(1,716)	2,490	-169%
Funds flow from operations per barrel					
Interest income	\$ 0.04	\$ 0.11	\$ 0.03	\$ 0.26	-90%
General and administrative expense	(1.16)	(1.54)	(0.88)	(1.73)	-49%
Realized foreign exchange gain (loss)	(2.23)	9.62	(0.15)	3.24	-105%
Foreign new ventures expenditures	(0.07)	(0.17)	(0.04)	(0.40)	-91%
	\$ (3.42)	\$ 8.02	\$ (1.04)	\$ 1.37	-176%

	Three Months Ended December 31,		Year Ended December 31,		Change
	2009	2008	2009	2008	
<i>(thousands of Canadian dollars except where indicated)</i>					
Thailand Operations					
Total production	310,006	642,302	1,640,894	1,810,439	-9%
Average daily oil production (bbls/d)	3,370	6,982	4,496	4,947	-9%
Average oil sales price, before transportation (CDN\$/bbl)	\$ 71.87	\$ 56.56	\$ 59.87	\$ 81.50	-27%
Reference Price (volume weighted) and differential					
Crude oil (WTI \$US/bbl)	\$ 75.97	\$ 58.15	\$ 58.56	\$ 93.49	-37%
Exchange Rate \$US/\$Cdn	1.072	1.211	1.157	1.087	6%
Crude oil (WTI \$Cdn/bbl)	\$ 81.42	\$ 70.41	\$ 67.72	\$ 98.93	-32%
Sales price / WTI reference price	88%	80%	88%	82%	6%
Funds flow from operations					
Crude oil sales	22,280	36,329	98,236	147,554	-33%
Government royalty	(1,344)	(2,897)	(6,729)	(10,027)	-33%
Other royalty	(37)	(29)	(114)	(309)	-63%
Transportation expense	(761)	(1,557)	(3,866)	(4,551)	-15%
Operating expense	(2,278)	(1,114)	(7,555)	(3,809)	98%
Field Netback	17,860	30,732	79,972	128,857	-38%
General and administrative expense	(735)	(182)	(3,394)	(1,900)	79%
Interest Income	14	354	407	506	-20%
Special Remuneratory Benefit (SRB)	(1,868)	(6,358)	(6,751)	(35,489)	-81%
Current income tax	(4,208)	(4,445)	(15,423)	(30,109)	-49%
Funds flow from operations	11,063	20,102	54,811	61,865	-11%
Funds flow from operations per barrel (CDN\$/bbl)					
Crude oil sales	\$ 71.87	\$ 56.56	\$ 59.87	\$ 81.50	-27%
Government royalty	(4.34)	(4.51)	(4.10)	(5.54)	-26%
Other royalty	(0.12)	(0.05)	(0.07)	(0.17)	-59%
Transportation expense	(2.45)	(2.42)	(2.36)	(2.51)	-6%
Operating expense	(7.35)	(1.73)	(4.60)	(2.10)	119%
Field Netback	57.61	47.85	48.74	71.17	-32%
General and administrative expense	(2.37)	(0.28)	(2.07)	(1.05)	97%
Interest Income	0.05	0.55	0.25	0.28	-11%
Special Remuneratory Benefit (SRB)	(6.03)	(9.90)	(4.11)	(19.60)	-79%
Current income tax	(13.57)	(6.92)	(9.40)	(16.63)	-43%
Thailand - Funds flow from operations	\$ 35.69	\$ 31.30	\$ 33.40	\$ 34.17	-2%
Government royalty as percentage of sales	6%	8%	7%	7%	0%
SRB as percentage of crude oil sales	8%	18%	7%	24%	-17%
Income tax as percentage of crude oil sales	19%	12%	16%	20%	-5%
As percentage of crude oil sales					
Expenses - transportation, operating, G&A and other	17%	8%	15%	7%	8%
Government royalty, SRB and income tax	33%	38%	29%	51%	-22%
Funds flow from operations, before interest income and realized foreign exchange gain	50%	54%	55%	42%	14%
Wells drilled					
Gross	6	7	24	22	9%
Net	4.4	4.2	15.2	13.2	15%

	Year Ended December 31,		
	2009	2008	Change
<i>(thousands of Canadian dollars except where indicated)</i>			
RESERVES			
<u>Onshore Thailand</u>			
(reserves assigned to concessions SW1 and L44/43; 60% interest) (Note 4)			
Proved oil reserves (thousands of barrels)	9,525	5,580	71%
Proved plus probable oil reserves (thousands of barrels)	36,684	24,963	47%
Net present value of proved + probable reserves, after tax discounted at 10%	459,000	357,000	29%
Per Pan Orient share – basic (Note 6)	\$ 9.68	\$ 7.83	24%
Net present value of proved + probable reserves, after tax discounted at 15%	362,000	296,000	22%
Per Pan Orient share – basic (Note 6)	\$ 7.63	\$ 6.50	17%
<u>Canada</u>			
(53.2% share of the oil sands leases of Andora at Sawn Lake, Alberta) (Note 5)			
Probable oil reserves (thousands of barrels)	70,121	70,253	0%
Net Present value of probable reserves, after tax discounted at 10%	466,000	487,695	-4%
Per Pan Orient share – basic (Note 6)	\$ 9.82	\$ 10.70	-8%
Net present value of probable reserves, after tax discounted at 15%	318,000	320,796	-1%
Per Pan Orient share – basic (Note 6)	\$ 6.70	\$ 7.04	-5%

International Concessions at December 31, 2009

<i>All amounts reflect Pan Orient's interest</i>	Status	Net Square Kilometers	Financial Commitments - Note 7 (CDN thousands)	2009 Avg Production	P+P Reserves (Mstb)
<u>Onshore Thailand</u>					
SW1A (60% working interest & operator)	Developed	14	-	232	1,980
L44/43 (60% working interest & operator)	Partially developed	539	\$ 19 to July 2012	4,264	34,704
L33/43 (60% working interest & operator)	Undeveloped	557	\$ 680 to July 2012	-	-
L53/48 (100% working interest & operator)	Undeveloped	3,997	\$ 1,498 to January 2013	-	-
<u>Indonesia</u>					
Citarum PSC, West Java (69% working interest & operator) (Note 8 & 9)	Undeveloped	1,986	18,562 to October 2010	-	-
Batu Gajah PSC, South Sumatra (90% working interest & operator) (Note 8 & 9)	Undeveloped	2,270	27,902 to January 2011	-	-
South CPP PSC, Central Sumatra (90% working interest & operator) (Note 9)	Undeveloped	4,026	5,231 to November 2011	-	-

- (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.
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 Canadian GAAP. All references to funds flow throughout this report are based on funds flow from operations before changes in non-cash working capital and reclamation costs.
- (2) Cost of capital expenditures, excluding any asset retirement obligation and excluding the impact of changes in foreign exchange rates.
- (3) Cost of Indonesian acquisition in 2008 allocated to petroleum and natural gas properties.
- (4) Thailand reserves as at December 31, 2009 and December 31, 2008 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\$ WTI per barrel) is \$80.00 for 2010, \$83.60 for 2011, \$87.40 for 2012, \$91.30 for 2013, \$95.30 for 2014, \$99.40 for 2015, and prices increase at 2% per year thereafter. The engineered values disclosed may not represent fair market value.
- (5) Pan Orient's 53.2% share of the reserves of Andora Energy Corporation, a private company, as at December 31, 2009 and December 31, 2008 as evaluated by DeGolyer and MacNaughton Canada Limited assessed at forecast crude oil reference

prices and costs. The reference price for crude oil per barrel (crude bitumen 9 API Plant Gate in Canadian dollars) is \$58.32 for 2010, \$59.21 for 2011, \$58.83 for 2012 and prices increasing to \$67.81 in 2021. The engineered values disclosed may not represent fair market value.

- (6) Per share values calculated based on 47,414,200 Pan Orient Shares outstanding at March 31, 2010.
- (7) Share of commitments reflect amounts to be paid by Pan Orient, including carried interest partners in Indonesia. Note that commitments for a concession in Thailand or a Production Sharing Contract ("PSC") in Indonesia include the completion of a work program as well as the amount of expenditure. Work program commitment is based on the original contract and timing is subject to government approval.
- (8) Indonesia financial commitments as provided above represent the current exploration phase that the Company is conducting. The obligation period ending for Citarum and Batu Gajah differs from the PSC agreement as commitments from previous years have been deferred and rolled forward. Every year the Company submits a work program for each PSC to the GOI and along with it, a request to roll forward any incomplete commitments from the previous year. Although this request is a departure from the original contract, it is considered standard practice in Indonesia. The above obligation periods for Citarum and Batu Gajah are consistent with this practice.
- (9) Amounts recorded in the financial statements and work commitments for Indonesian PSCs include amounts paid by Pan Orient on behalf of a partner's carried interest (10% for Batu Gajah, 11% for Citarum, and 10% for South CPP).

Overall Performance - Highlights

- Pan Orient had an active 2009 drilling program in Thailand with the drilling of 24 wells (15.2 net wells) focused on exploration and appraisal wells to add new reserves and new development drilling opportunities for 2010. Six wells (4.4 net) were drilled in the fourth quarter of 2009, with two horizontal wells at Bo Rang, an exploration well at Si Thep, an appraisal well at NSE-G2, and two exploration wells in Concession L53. Total capital expenditures in Thailand were \$16.4 million in the fourth quarter of 2009 and a total of \$52 million in 2009.
- Pan Orient drilled 22 wells in Concession L44 during 2009 resulting in 16 producing wells, one well awaiting testing, and oil discoveries at Bo Rang, NSE-F1, L44-W, Si Thep, NSE-H3, and NSE-J1 plus significant appraisal wells at NSE-E2 and NSE-H1.
- The December 31, 2009 Thailand reserves evaluation assigned proved oil reserves of 9.5 million barrels, proved plus probable oil reserves of 36.7 million barrels and proved, probable and possible oil reserves of 85.6 million barrels (increases of 71%, 47% and 55% respectively from December 31, 2008). Oil discoveries for Concession L44, net of a technical revision which transferred reserves from the Na Sanun East ("NSE") field to the new NSE-F1 field, were 13.4 million barrels. The net present value of proved and probable reserves after tax for Concession L44 and Concession SW1, using forecast prices and discounted at 10%, was \$459 million and represents \$9.68 per Pan Orient share.
- Average Thailand oil sales in 2009 were 4,496 BOPD and 3,370 BOPD for the fourth quarter of 2009.
- Oil sales averaged 3,816 BOPD in the first quarter of 2010 (excluding an average of 150 BOPD of oil production from the L53-A well which is being stored in tanks until a production license for Concession L53 is granted).
- Pan Orient drilled the first two exploration wells at Concession L53 (100% working interest) during the fourth quarter of 2009 and work on these wells continued into the first quarter of 2010. The L53-A well has produced approximately 13,500 barrels of crude oil to tanks under a 90 day production test which expired on April 2nd. A contingent resource report for the 2009 L53-A oil discovery is anticipated to be completed by late April 2010 and will form the basis of a production license application to be submitted to the Thailand Department of Mineral Fuels.
- Pan Orient had fund flow from operations of \$9.9 million in the fourth quarter of 2009 (\$0.21 per share) and \$53.0 million for 2009 (\$1.15 per share). Pan Orient had net income of \$7.0 million in the fourth quarter of 2009 (\$0.15 per share) and \$15.1 million for 2009 (\$0.33 per share).
- Strong generation of after tax funds flow from Thailand operations contributed \$11.1 million for the fourth quarter of 2009 (\$35.69 per barrel) and \$54.8 million for 2009 (\$33.40 per barrel).
- At December 31, 2009 Pan Orient had \$32.7 million in working capital and deposits, and no long-term debt.
- Total 2009 capital programs in Thailand, Indonesia and Canada of \$63.5 million were financed 83% by after tax funds flow from operations and 17% from working capital.
- The December 31, 2009 reserves evaluation for the Sawn Lake, Alberta heavy oil project operated by Andora Energy Corporation (which is owned 53.2% by Pan Orient) assigned probable recoverable oil reserves of 70.1 million barrels net to the 53.2% ownership interest of Pan Orient. The associated net present value, using forecast prices and discounted at 10%, is \$466 million to Pan Orient and represents \$9.82 per Pan Orient share. In 2009 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). The Pilot location is on Andora 100% owned acreage within the South Block of its Sawn Lake Property in the Peace River Oil Sands Region.

- At the Batu Gajah PSC in Indonesia (onshore Sumatra - POE 90% working interest and operator) the acquisition of 500 line kilometres of 2D seismic continues with completion anticipated in the second quarter of 2010. Up to nine well locations have been submitted for approval to the Ministry of Forestry. The 2010 Indonesian high impact drilling program will commence with three Batu Gajah exploration wells in the second half of 2010. The exact timing largely a function of Ministry of Forestry approvals for proposed well locations.
- At the Citarum PSC in Indonesia (onshore Java - POE 69% working interest and operator) the acquisition of more than 1,100 line kilometres of 2D seismic data continues with completion anticipated late in the second quarter of 2010. Seismic data processing and mapping of the first third of the program has been completed with the identification of three prospects in the region of the block directly adjacent to the Pasar Jadi and Subang gas fields. Target depths are shallow, ranging between 800 to 1,800 meters and mapped structural closures are up to 25 square kilometres in maximum areal extent. The three exploration wells at Citarum will start drilling immediately after the three well program on the Batu Gajah PSC.

Overall Performance – Operating Results

- Pan Orient had an active 2009 drilling program in Thailand with the drilling of 24 wells (15.2 net wells) focused on exploration and appraisal to add new reserves and new development drilling opportunities for 2010. Total capital expenditures in Thailand for 2009 were \$52.0 million for drilling, increased water handling capability, increased levels of equipment inventory for future drilling, installation of electric submersible pumps, and land purchase and construction for future drilling locations. Capital expenditures in Thailand were fully funded by oil sales in Thailand which generated \$54.8 million in funds flow from operations. In the fourth quarter of 2009 Pan Orient drilled six wells (4.4 net) in Thailand and had capital expenditures of \$16.4 million.
- The independent reserves evaluation conducted by Gaffney, Cline & Associates (Consultants) Pte. Ltd. of Singapore (“Gaffney Cline”) for the Thailand assets at December 31, 2009 assigned proved oil reserves of 9.5 million barrels, proved plus probable oil reserves of 36.7 million barrels and proved, probable and possible oil reserves of 85.6 million barrels. Compared with the reserves evaluation by Gaffney Cline at December 31, 2008, this represents increases of 71%, 47% and 55% respectively. The net present value of proved and probable reserves after tax in Concession L44 (and including Concession SW1), using forecast prices and discounted at 10%, is \$459 million and represents \$9.68 per Pan Orient share.

Pan Orient had average oil sales of 4,496 barrels per day in 2009. Reserve replacement of 2009 oil sales was approximately 3.4 times based on proved reserves and 8.1 times based on proved and probable reserves. Oil discoveries for Concession L44 were 13.4 million barrels, net of the technical revision. The negative technical revision of approximately 6.6 million barrels of proved and probable reserves for the NSE Central field was primarily a result of recognition in the December 31, 2009 reserve report that the NSE Central field and the new NSE-F1 field are distinctly separate oil pools, and resulted in the transfer of volumes previously attributed to the NSE-F1 area in the December 31, 2008 reserve report as part of the NSE Central field, to the new NSE-F1 field as an oil discovery in 2009. The 2009 reserves growth in Concession L44 is attributed entirely to exploration success with new pool oil discoveries made at NSE-F1, Bo Rang A, Bo Rang B, L44-W, NSE-J1, Si Thep-2 and NSE-H3. The vast majority of estimated proved and probable reserve additions are generally evenly distributed across four main fields: Bo Rang A, Bo Rang B, NSE-F1 and NSE Central providing greater depth to the overall reserve base in comparison to any prior year. The December 31, 2009 Thailand reserves evaluation does not include any contingent resources that are anticipated to be assigned to Concession L53 (in which Pan Orient has a 100% working interest).

- Pan Orient drilled 22 wells in Concession L44 in Thailand which resulted in significant growth in proved and probable oil reserves, and the diversification of reserves, production and drilling opportunities through the discovery of new oil fields.
 - The drilling of ten wells in Na Sanun East at a cost of approximately \$12.8 million resulted in eight producing wells and included significant appraisal wells at NSE-E2 and NSE-H1, a new volcanic pool oil discovery at NSE-H3, and the discovery of a new producing sandstone reservoir at NSE-J1. These wells produced 245,228 barrels of oil in 2009 and generated an estimated \$9.4 million in after tax funds flow from operations. Production for the first quarter of 2010 from these wells was 515 BOPD.
 - Pan Orient had a significant oil discovery at Bo Rang with the new volcanic Bo Rang “A” and Bo Rang “B” pools. Five producing wells were drilled in the Bo Rang field in 2009 at a cost of approximately \$10.7 million. Late in the fourth quarter of 2009 Pan Orient drilled the first of four horizontal wells to develop the Bo Rang field. The reserves evaluation at December 31, 2009 assigned 11.1 million barrels of proved and probable reserves to this new field. These wells produced 65,634 barrels of

oil in 2009 and generated an estimated \$2.9 million in after tax funds flow from operations. Production for the first quarter of 2010 from these wells was 125,582 barrels of oil, or 1,395 barrels per day.

During the first quarter of 2010, Pan Orient drilled two new horizontal development wells at Bo Rang "B" which were put on production in March 2010 at approximately 360 BOPD each. Production for the first quarter of 2010 from Bo Rang, including these two new wells was 1,670 BOPD.

- Pan Orient had an oil discovery at L44-W in the first half of 2009. Four wells were drilled in 2009 at a cost of approximately \$8.8 million and resulted in two producing wells. The L44-W exploration well produced 23,000 barrels of oil during the 90 day production testing period which expired in July 2009. The production license necessary to resume production was granted in December 2009; however production from this well could not be re-established due to close proximity of the well to the field oil water contact resulting in a high water cut. The L44-W4 horizontal well was drilled in the fourth quarter and average production in the quarter was 331 BOPD. The reserves evaluation at December 31, 2009 assigned 1.1 million barrels of proved and probable reserves to this new field. These wells produced 53,543 barrels of oil in 2009 and generated an estimated \$2.2 million in after tax funds flow from operations. Production from L44-W4 for the first quarter of 2010 was 22,924 barrels of oil, or 255 BOPD.
 - The NSE-F1 vertical well resulted in the discovery of the NSE-F1 field and established commercial production 1 kilometer from the nearest Na Sanun East producer. The reserves evaluation at December 31, 2009 assigned 7.2 million barrels of proved and probable reserves to the new NSE-F1 field and noted that there was a transfer of previously assigned volumes from Na Sanun East Central following the discovery of the new NSE-F1 accumulation, which is now regarded as a separate pool from the main Na Sanun East Central Field. This well produced 8,331 barrels of oil in 2009 and generated an estimated \$0.3 million in after tax funds flow from operations. Production for the first quarter of 2010 from the NSE-F1 well was 21 BOPD. Pan Orient will commence development of the NSE-F1 field using horizontal wells during the second quarter of 2010.
 - Starting in February 2010 Pan Orient began drilling with a new drilling rig with superior equipment and which is better suited to horizontal drilling. This new drilling rig is capable of drilling approximately three wells per month, improving drilling performance, and reducing the overall cost of drilling.
 - In July 2009, Pan Orient received formal approval for the three year extension of Concession L44 and Concession L33 to July 16, 2012. This extension of Concession L44 had new commitments for three exploration wells and Pan Orient drilled these required wells by the end of 2009 through activity at Bo Rang and L44-W. The extension of Concession L33 has new commitments of two exploration wells plus geological studies with a combined expenditure obligation to Pan Orient of US\$0.6 million.
 - Pan Orient was granted the new Bo Rang production license in Concession L44 by the Thailand Department of Mineral Fuels in December 2009, which includes the Bo Rang, L44-W and NSE-F1 fields. Pan Orient also received environmental approval for eighteen surface pad locations which can accommodate two to three wells each. Of these new approved surface locations, nine are at Bo Rang, five at NSE-F1 and four at L44-W.
- Pan Orient drilled the first two exploration wells in Concession L53 (100% working interest) during the fourth quarter of 2009 and work continued on these wells into the first quarter of 2010. Total capital expenditures relating to Concession L53, including the drilling of the two wells, plus equipment inventory for additional drilling was \$8.1 million in 2009. There is approximately \$3.8 million in additional capital expenditures incurred in the first two months of 2010. The L53-A well has produced approximately 13,500 barrels of crude oil to tanks under a 90 day production test which expired on April 2nd. Results for the L53-D well were disappointing and far below pre-drill expectations with regard to oil bearing reservoir thickness and areal extent. The December 31, 2009 Thailand reserves evaluation does not include any contingent resources that are expected to be assigned to Concession L53. A contingent resource report for the 2009 L53-A oil discovery is anticipated to be completed by late April 2010 and will form the basis of a production license application to be submitted to the Thailand Department of Mineral Fuels. It is expected that a production license will be granted by the end of July, and at that time oil production will resume, the crude oil inventory will be sold, and further development will proceed.
 - Thailand oil sales for the fourth quarter of 2009 were 3,370 BOPD compared with 3,648 BOPD for the third quarter of 2009. Oil sales averaged 4,496 BOPD in 2009 compared with 4,947 BOPD in 2008. Oil sales averaged 3,816 BOPD in the first quarter of 2010 (excluding an average of 150 BOPD of oil production from the L53-A well which is being stored in tanks until a production license for Concession L53 is granted).

Pan Orient experienced significant fluctuations in production levels during 2009. Production had peaked in the fourth quarter of 2008 at 6,982 BOPD as a result of strong initial production from wells drilled during the second half of 2008 in the Na Sanun East field. Production declined as a result of the natural production decline in volcanic reservoirs which can be initially very prolific, accelerated drainage of one pool in Na Sanun East, increased water production, and reduced production from the L44-HD1 well which had produced 1,575 BOPD in 2008 and produced 607 BOPD in 2009. Pan Orient's 2009 drilling program was concentrated on exploration and appraisal drilling for discovery of new oil pools which added new reserves and future drilling opportunities, but did not result in immediate production equal to the decline. The 22 wells drilled in Concession L44 during 2009 produced 372,968 barrels of oil, or 1,022 BOPD on average for the year, and these wells produced on average 2,189 BOPD in the first quarter of 2010. Looking forward, the oil discoveries of Pan Orient in 2009 have diversified and expanded the oil reserves, production portfolio and drilling opportunities.

- Capital expenditures in Indonesia were \$2.0 million for the fourth quarter and a total of \$10.6 million for 2009. These expenditures were primarily related to ongoing seismic programs being conducted in both the Citarum Production Sharing Contract area and Batu Gajah Production Sharing Contract area. These seismic programs will be completed in the first half of 2010 with an additional cost of approximately \$10 million.

Overall Performance – Financial Results

- Fourth Quarter of 2009
 - The financial results for Pan Orient in the fourth quarter of 2009 compared to the third quarter of 2009 reflect an 8% decrease in oil production offset by a 6% increase in realized crude oil prices, and foreign exchange losses due to the strengthening Canadian dollar. Pan Orient continued its active drilling program in Thailand in the fourth quarter of 2009 with four wells (2.4 net) drilled in Concession L44 and two exploration wells (2.0 net) in the 100% owned Concession L53. Pan Orient was also active in Indonesia during the quarter with seismic acquisition programs at the Citarum PSC and the Batu Gajah PSC.
 - Funds flow from operations for the fourth quarter was \$9.9 million compared with \$11.2 million for the third quarter of 2009 and \$25.0 million for the fourth quarter of 2008. Funds flow from operations per share (basic) was \$0.21 for the fourth quarter of 2009. There was a \$1.1 million decrease in funds flow from operations compared with the third quarter of 2009. In the fourth quarter of 2009, the Company recorded a \$0.7 million realized foreign exchange loss as a result of the strengthening Canadian dollar and the movement of funds from the Thailand operations to Canada. In addition, general and administrative expenses in the fourth quarter of 2009 for Canada, including Andora Energy Corporation, were \$0.4 million compared with a slight net general and administrative expense recovery reported for the third quarter of 2009.
 - For the fourth quarter of 2009, Thailand generated \$11.1 million in funds flow from operations, compared with \$11.2 million the third quarter of 2009 primarily as a result of the 8% decrease in oil sales volumes offset by a 6% increase in the realized price for crude oil. For the quarter, transportation expenses were \$2.45 per barrel, operating expenses \$7.35 per barrel, general and administrative expenses \$2.37 per barrel and amounts to the Thailand government of \$23.94 per barrel resulted in after tax funds flow from operations per barrel of \$35.69. The WTI reference price for crude oil per barrel increased 8% during the quarter to CDN\$81.42 from CDN\$75.43 in the third quarter of 2009, as the 12% increase in the United States dollar WTI reference price was reduced through the rise in the Canadian dollar. Operating expenses increased to \$2.3 million or \$7.35 per barrel in the fourth quarter from \$2.0 million or \$5.95 per barrel in the third quarter of 2009 as a result of lower production levels and additional expenses for maintenance and water hauling. For the fourth quarter of 2009, Thailand crude oil revenue was allocated 17% to expenses for other royalties, transportation, operating, and general & administrative, 33% to the government of Thailand in the form of royalties, Special Remuneratory Benefit ("SRB") and Income Tax, and 50% to Pan Orient (before interest income and realized foreign exchange gain).
 - Net income of \$7.0 million, or \$0.15 per share (basic), for the fourth quarter of 2009 compared with net income of \$10.8 million, or \$0.24 per share (basic), for the fourth quarter of 2008.
- Year Ended December 31, 2009
 - The 2009 financial results for Pan Orient compared to the 2008 financial results reflect the 9% decrease in oil production on a year over year basis, a relatively consistent funds flow from operations in Thailand per barrel, and foreign exchange losses due to the Canadian dollar strengthening 11% against the Thai Baht and 16% against the U.S. dollar.

- Funds flow from operations for 2009 was \$53.0 million compared with \$63.9 million for 2008, representing funds flow from operations per share (basic) of \$1.15 compared with \$1.40 for the prior year. The \$10.9 million decrease in funds flow from operations from the prior year is primarily due to a \$7.0 reduction in funds flow from Thailand operations and a \$4.2 million reduction in funds flow from Canada.
- Thailand operations in 2009 generated \$54.8 million in funds flow from operations after tax, or \$33.40 per barrel in 2009 compared with \$61.9 million or \$34.17 per barrel in 2008. The Thailand operations in 2009 experienced a 9% decrease in oil sales volumes and a 27% decrease in the realized crude oil price; however funds flow from operations in Thailand per barrel was relatively consistent due to reductions in Thailand SRB and income tax. For 2009, transportation expenses were \$2.36 per barrel, operating expenses \$4.60 per barrel, general and administrative expenses \$2.07 per barrel and amounts to the Thailand government of \$17.61 per barrel resulted in after tax funds flow from operations per barrel of \$33.40. Operating expenses increased to \$7.6 million or \$4.60 per barrel in 2009 from \$3.8 million or \$2.10 per barrel in 2008 due to the increased number of wells, expenses for maintenance and water hauling, and a lower production level. For 2009, Thailand crude oil revenue was allocated 15% to expenses for other royalties, transportation, operating, and general & administrative, 29% to the government of Thailand in the form of royalties, SRB and income tax, and 55% to Pan Orient (before interest income and realized foreign exchange gain).
- Each of the four concessions in Thailand are subject to the SRB 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 a deduction for capital spent. Concession L44, which contributed 95% of Pan Orient's oil production in 2009, is the only producing concession which currently pays SRB. The SRB tax rate for a concession is largely based on the amount of revenue for the concession. The SRB expense as a percentage of crude oil sales was reduced to 7% in 2009 compared with 24% in 2008 due to the significant level of capital reinvestment in Concession L44 and lower revenue resulting from the lower oil price and production level.
- For the calculation of Thailand taxable income the SRB is fully deductible, exploratory expenses for producing concessions (including expenditures for drilling and representing ~68% of capital expenditures) are fully deductible, other capital expenditures in the field (representing ~28% of capital expenditures) are deducted as tax depletion based on the amount of production compared to the reserve base. Additions to the inventory of capital items (representing ~4% of capital expenditures) are not deductible until used in field operations. The reduction in Thailand income taxes in 2009 also reflects lower oil revenue and the significant level of capital reinvestment in Concession L44.
- The Canadian dollar appreciated 11% against the Thai Baht and 16% against the U.S. dollar in 2009. The impact of foreign exchange was:
 - The realized foreign exchange gain in 2009 was \$3.7 million resulting from the movement of funds from Thailand to Canada, and the associated reclassification of accumulated historic exchange gains on repatriation of funds. Of this amount, it is deemed that there was a \$0.2 million loss associated with operating activities and a \$3.9 million gain related to investing activities (associated with the investment in Thailand).
 - The translation of the carrying value of all foreign operations, including all assets and liabilities in Thailand and Indonesia, into Canadian dollars resulted in a total translation loss of \$18.8 million in 2009 due to the strengthening of the Canadian dollar. Of this amount, a \$10.6 million was recorded as an unrealized foreign exchange loss in the income statement, and \$8.2 million was recorded as a loss to accumulated other comprehensive income.
- Funds flow from Canada was negative \$1.7 million in 2009 compared with a funds flow of \$2.5 million in 2008. General and administrative expenses for Canada were \$1.4 million in 2009 compared with \$3.1 million in 2008. In 2009, the Company recorded a realized foreign exchange loss of \$0.2 million compared with the realized foreign exchange gain of \$5.9 million in 2008 resulting from the movement of funds from Thailand to Canada, and the associated reclassification of accumulated historic exchange gains and losses on repatriation of funds.
- Net income for 2009 was \$15.1 million or \$0.33 per share (basic) compared with \$31.8 million, or \$0.70 per share (basic) for 2008. The lower net income in 2009 is the result of a lower level of funds flow from operations in 2009 and foreign exchange losses.
- Pan Orient continues to maintain its financial strength and flexibility. At December 31, 2009 Pan Orient had \$32.7 million of working capital and deposits, and no long-term debt. In 2009 Pan Orient had internally generated funds flow from operations of \$53.0 million, funding 83% of the \$63.5 million of capital expenditures in Thailand, Indonesia and Canada. In addition, at December 31, 2009 Pan Orient

had \$6.9 million of equipment inventory to be utilized for future Thailand and Indonesia operations that is included in petroleum and natural gas assets on the balance sheet.

- o Capital expenditures in Indonesia were \$2.0 million for the fourth quarter and a total of \$10.6 million for 2009. These expenditures were primarily related to ongoing seismic programs being conducted in both the Citarum Production Sharing Contract area and Batu Gajah Production Sharing Contract area. These seismic programs will be completed in the first half of 2010 with an additional cost of approximately \$10 million.

Revenue and Production

The price Pan Orient receives for its production is determined by petroleum benchmark prices, and to a lesser extent, the effect of the Canadian dollar exchange rate relative to the U.S. dollar and the Thai baht. Oil prices fluctuate in response to global supply and demand and, along with foreign currency rates, are influenced by factors out of the Company's control. The Company's realized prices, discounted for the paraffin content of its oil, were 88% of the WTI reference price for both the three months and year ended December 31, 2009. In 2009 the WTI \$US reference price was 37% lower than in 2008 and Pan Orient's revenue was further impacted by the strengthening of the Canadian dollar increasing 16% against the U.S. dollar.

Thailand oil production for the fourth quarter of 2009 was 3,370 BOPD compared with 3,648 BOPD for the third quarter of 2009. Oil production averaged 4,496 BOPD in 2009 compared with 4,947 BOPD in 2008. Oil production averaged 3,816 BOPD in the first quarter of 2010.

Royalties

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Royalties - \$000s	1,381	2,926	6,843	10,336
Royalties - \$/bbl	4.45	4.55	4.17	5.71
Royalties - % of revenue	6.2	8.1	6.8	6.8

The Company pays two types of royalties: 1) to the Thai government on all production volumes; and 2) a 8% gross overriding royalty ("GORR") on a small portion of production from the Wichian Buri oil field. The GORR is payable on approximately 1% of the Company's revenue and does not have a significant impact on the royalty rate. The royalty rate paid to the Thai government is based on a sliding scale, ranging from 5% on production of less than 2,000 bbl/d to 15% on production in excess of 20,000 bbl/d per concession. Approximately 95% of crude oil production is from the L44 Concession with the remaining 5% from the SW1A Concession.

Production Expenses

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
(\$000s)				
Transportation expenses	761	1,557	3,866	4,551
Operating expenses	2,278	1,114	7,555	3,809
Total production expenses	3,039	2,671	11,421	8,360
(\$/bbl)				
Transportation expenses	2.45	2.42	2.36	2.51
Operating expenses	7.35	1.74	4.60	2.11
Total production expenses	9.80	4.16	6.96	4.62

Transportation expenses represent the cost to truck the Company's oil production in Thailand to the refinery in Bangkok. The Company is charged a contracted rate based on volumes transported therefore on a per barrel basis, costs are generally consistent regardless of production volumes.

Approximately 54% of the Company's operating expenses relate to personnel and the field office, and the remaining 46% are related to well and well site operations. The number of individuals required to operate the Company's properties does not fluctuate with production volumes but more so with the number of wells and the geographical proximity of the wells. Higher 2009 operating expenses per barrel are due to the increased number of wells, expenses for maintenance and water hauling, and a lower production level. The increased number of wells and production sites for the year contributed to higher costs in terms of expenses associate with the generator, fuel and repair and maintenance costs.

Depletion, Depreciation and Accretion

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Depletion, depreciation and accretion – \$000s	2,897	7,327	16,680	18,369
Depletion, depreciation and accretion – \$/bbl	9.34	11.41	10.16	10.15

Depletion, depreciation and accretion ("DD&A") expense for the three months and year ended December 31, 2009 consists primarily of depletion of Pan Orient's Thailand petroleum and natural gas properties. As the Company's Canadian and Indonesian assets are in the pre-production phase, depletion is not calculated for these cost centres.

DD&A for the current quarter incorporates the December 31, 2009 externally-evaluated resource additions and the associated future capital costs. Compared to 2008, a higher proportion of capital expenditures related to properties for which there has not yet been a determination of associated reserve volumes were excluded from the full cost pool at December 31, 2009. Excluded from the depletable base was \$20.9 million (2008 - \$13.8 million) related to unproved properties in Thailand and equipment for future exploration and development activities. As a result, DD&A expense per barrel for the three months ended December 31, 2009 is 18% lower than the comparable period in 2008.

Costs subject to depletion included \$20.5 million (2008 - \$14.0 million) of estimated future development costs for proved reserves.

Taxes

(\$000s)	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Special remuneratory benefit	1,868	6,358	6,751	35,489
Current tax	4,208	4,445	15,423	30,109
Total current tax	6,076	10,803	22,174	65,598
Future tax expense	(658)	7,402	12,686	14,383
Total tax expense	5,418	18,205	34,860	79,981

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

SRB is a tax at sliding scale rates of 0 - 75% applied on a concession-by-concession basis to petroleum profits as defined in Thai tax legislation which includes deductions for expenses and capital spent. The rate is principally determined by revenue for the concession (production and pricing) but is subject to other adjustments such as changes in Thailand's consumer and wholesale price indices and cumulative metres drilled on the concession. Currently the Company pays SRB on its L44 Concession only and the SRB rate applicable to petroleum profits of this concession (after deduction of capital expenditures) was 21% in 2009 compared with 42% in 2008.

Income tax is 50% of taxable income which is calculated as funds flow from operations less capital expenditures (deductible at varying rates), SRB, and other permitted deductions. For the calculation of Thailand income tax, exploratory expenses for producing concessions (including expenditures for drilling and representing 68% of capital expenditures) are fully deductible. Other capital expenditures in the field (representing 28% of capital expenditures) are deducted as tax depletion based on the amount of production compared to the reserve base. The additions to the inventory of capital items (representing 4% of capital expenditures) are not deductible until used in field operations. Income taxes of \$15.4 million for the year were lower than the prior year mainly due to lower oil revenue and the high level of reinvestment into capital programs in Concession L44. Because of the deductions allowed for capital spent, the effective rates of these taxes can vary significantly from the actual tax rates. In 2009 the ratio of deductible capital expenditures relative to funds flow from operations was higher in 2009 compared

with 2008, resulting in lower effective tax rates in the current year. The tax depletion for the year was determined using the year-end reserve report.

For the year ended December 31, 2009 SRB was 6.9% (2008 – 24.1%) and income tax was 15.7% (2008 – 20.4%) of total revenue.

Taxes payable of \$14.9 million at December 31, 2009 represents SRB for 2009 and income tax from September 1, 2009 to December 31, 2009.

General and Administrative (G&A) Expenses (excluding stock based compensation expense)

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
G&A, net of overhead recoveries - \$000s	2,290	1,738	6,880	5,904
Capitalized G&A	(1,140)	(288)	(1,891)	(412)
G&A, net - \$000s	1,150	1,450	4,989	5,492
G&A – \$/bbl	3.71	2.26	3.04	3.03

G&A expenses as reported are net of overhead recoveries and G&A expenses allocated to capital projects. Overhead recoveries are the allocation and recovery from third parties of G&A expenses on Pan Orient operated properties. G&A in the current year has been affected by growth of the operations in Indonesia as well as several significant payments and offsetting recoveries in Canada and Thailand which are not expected to recur to the same magnitude in future periods.

G&A expenses allocated to capital projects represent compensation and other costs associated with property acquisition, exploration and development activities. Capitalized G&A in the current year relates to the L53 concession in Thailand, the Indonesia properties acquired in mid 2008, and the Company's heavy oil development project in Canada. Amounts capitalized continue to increase relative to 2008 primarily due to the Company's Indonesia operations. These allocations are reviewed periodically by management and will continue to reflect the nature of the Company's capital activities in future periods.

Capital Invested

(\$000s)	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Thailand	16,351	10,460	51,996	31,319
Indonesia	2,042	5,229	10,582	7,345
Canada	567	909	917	1,827
Total capital expenditures	18,960	16,598	63,495	40,491
Indonesia acquisition expenditures – cash	-	(1,131)	-	15,157
Total capital and acquisition expenditures - cash	18,960	15,467	63,495	55,649
Indonesia acquisition expenditures – non cash	-	-	-	4,124
Total capital expenditures	18,960	15,467	63,495	59,773

Thailand

Pan Orient's capital program in 2008 consisted primarily of developing its Na Sanun East ("NSE") property.

Pan Orient had an active 2009 drilling program in Thailand with the drilling of 24 wells (15.2 net wells) focused on exploration and appraisal to add new reserves and new development drilling opportunities for 2010. Total capital expenditures in Thailand for 2009 were \$52.0 million for drilling, increased water handling capability, increased levels of equipment inventory for future drilling, installation of electric submersible pumps, and land purchase and construction for future drilling locations. Pan Orient drilled 22 wells in Concession L44 during 2009 resulting in 16 producing wells, and oil discoveries at Bo Rang, NSE-F1, L44-W, Si Thep, NSE-H3, and NSE-J1 plus significant appraisal wells at NSE-E2 and NSE-H1.

Pan Orient drilled the first two exploration wells in Concession L53 (100% working interest) during the fourth quarter of 2009 and work continued on these wells into the first quarter of 2010. Total capital expenditures relating to Concession L53, including the drilling of the two wells, plus equipment inventory for additional drilling was \$8.1 million in 2009 and an additional \$3.8 million in

capital expenditures was incurred in the first two months of 2010. The L53-A well has produced approximately 13,500 barrels of crude oil to tanks under a 90 day production test which expired on April 2nd. Results for the L53-D well were disappointing and far below pre-drill expectations with regard to oil bearing reservoir thickness and areal extent. The December 31, 2009 Thailand reserves evaluation does not include any contingent resources that are expected to be assigned to Concession L53. A contingent resource report for the 2009 L53-A oil discovery is anticipated to be completed by late April 2010 and will form the basis of a production license application to be submitted to the Thailand Department of Mineral Fuels. It is expected that a production license will be granted by the end of July, and at that time oil production will resume, the crude oil inventory will be sold, and further development will proceed.

Indonesia

The Company's seismic programs for Citarum and Batu Gajah are currently underway and drilling is expected to commence in mid 2010 with 3 exploration wells planned for Batu Gajah and 3 exploration wells on Citarum. Total 2009 capital costs in Indonesia were \$10.6 million, with \$7.4 million related to seismic activities and the remainder related to the testing of the Pasundun-1 well and capitalized general and administrative expenses.

A \$1.4 million bond for the Company's Citarum seismic program was established during the first quarter of 2009 and is included in non-current deposits.

The Company's required future capital expenditures for Indonesia will be determined by the timing and extent of work commitments and are estimated under "Commitments".

Liquidity and Capital Resources

Liquidity

At December 31, 2009 Pan Orient's cash and cash equivalents was \$44.8 million compared to \$98.9 million at December 31, 2008. At December 31, 2009, \$25.3 million (December 31, 2008 - \$80.0 million) was held in Thailand, \$17.4 million (December 31, 2008 - \$15.7) was held in Canada, and the remainder in Indonesia. The Company's treasury policy implemented in 2009 involves transferring excess capital from Thailand to Canada on a regular basis to closely monitor foreign exchange and interest earned as well as to have funds available for redistribution to Indonesia as needed. The Company's current cash balance in Canada is held at interest rates similar to short term deposits.

Pan Orient has funded its 2009 capital program of \$63.5 million through funds generated from operating activities of \$53 million and existing working capital. The Company'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.

Working capital plus non current cash deposits at December 31, 2009 was \$32.7 million compared to \$46.4 million at December 31, 2008. The decrease is attributable to capital expenditures in excess of funds flow from operations and the strength of the Canadian dollar relative to the U.S. dollar and Thai baht which has resulted in foreign exchange losses on net assets. Non current cash deposits relate to guarantees to the Thailand and Indonesia governments for the Company's work commitments and customs importation permits in Thailand. The change in working capital plus deposits was as follows:

Working Capital Plus Deposits	Three Months Ended		Year Ended	
	December 31		December 31	
(\$000s)	2009	2008	2009	2008
Balance at beginning of period	39,830	40,022	46,386	40,763
Funds flow from operations	9,945	24,973	52,950	63,897
Capital expenditures	(18,960)	(16,598)	(63,495)	(40,491)
Indonesia acquisition	-	1,131	-	(15,157)
Foreign exchange impact on working capital	1,338	(2,803)	(4,214)	(1,964)
Net proceeds on share transactions	585	(339)	1,111	(662)
Balance at end of period	32,738	46,386	32,738	46,386

At December 31, 2009, Pan Orient held \$6.9 million of equipment inventory to be utilized for future Thailand and Indonesia operations that is included in petroleum and natural gas assets on the balance sheet.

Current Economic Conditions

The economic downturn beginning mid-2008 and continuing into 2009 decreased world oil consumption resulting in higher inventory levels and reduced prices. Since the first quarter of 2009 oil prices have steadily increased in accordance with rising consumption levels and increasing optimism regarding the world financial situation. The sustainability of this increase in crude oil prices is uncertain, particularly considering current inventory levels, surplus productive capacity and uncertainty with respect to the timing of full economic recovery. World oil prices affect not only current cash flows of oil and gas companies but also expected future cash flows, thus impacting the ability to carry out planned activities necessary for future growth. The industry has also become challenged by reduced liquidity in financial markets and limited access to financing. Given the Company's present working capital position and ability to generate positive cash flows in the 2009 price environment, management does not expect any current capital programs to be curtailed however the Company continues to proactively forecast cash flows to assess whether planned capital activities are manageable.

Share Capital

Outstanding at period-end	April 12, 2010	December 31, 2009
Common shares	47,664,200	46,313,366
Common shares issuable on conversion of stock options	3,090,666	4,441,500
Total	50,754,866	50,754,866

A total of 1,100,834 options were exercised subsequent to December 31, 2009. Of the options exercised, 767,334 had exercise prices ranging between \$0.75 and \$2.00 and 333,500 had exercise prices ranging between \$2.01 and \$4.00.

There have been no shares repurchased by the Company subsequent to December 31, 2009.

Foreign Exchange

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

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Rate at end of period								
Thai baht / CAD \$ exchange	31.53	30.69	29.14	27.96	28.43	32.15	32.84	30.48
U.S. dollar / CAD \$ exchange	1.047	1.072	1.115	1.257	1.223	1.039	1.011	1.020

The Company's treasury function has been established with the goal of minimizing foreign currency exchange fluctuations to the extent possible. Surplus funds are expatriated to Canada to hold in Canadian dollars, ensuring that 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.

Translation (losses) and gains were allocated as follows:

(\$000s)	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Unrealized foreign exchange gain (loss)	(184)	203	(10,636)	955
Net gain (loss) recorded in AOCI	(720)	3,987	(8,186)	5,759
	(904)	4,190	(18,822)	6,714

Commitments

As at December 31, 2009 the Company's estimated outstanding capital commitments were as follows:

Country and Concession Name	Work Program Commitment	Obligation Period Ending	Estimated Net Financial Commitment	
			USD (\$000s)	CAD (\$000s) ⁽¹⁾
Thailand				
L 44/43	▪ study and training fund	July 2012	18	19
L33/43	▪ drill 2 exploration wells	July 2011	600	630
	▪ geological studies	July 2012	30	31
	▪ study and training fund	July 2012	18	19
L 53/48	▪ drill 4 exploration wells	January 2013	1,300	1,365
	▪ geological studies		80	84
	▪ study and training fund		47	49
Indonesia ⁽²⁾				
Citarum (3)	▪ 1,250 km 2D seismic	October 2010	17,679	18,562
	▪ drill 3 exploration wells			
Batu Gajah (3)	▪ 500 km 2D seismic	January 2011	26,573	27,902
	▪ 400 km 3D seismic			
	▪ drill 3 exploration wells			
South CPP (3)	▪ 500 km 2D seismic reprocessing	November 2011	4,982	5,231
	▪ drill one exploration wells			
Total			51,327	53,892

(1) Translated at December 31, 2009 exchange rate of US \$1 = CAD \$1.05.

(2) The Company owns a 90% working interest in the Batu Gajah production sharing contract (PSC) located onshore south Sumatra, a 69% operated working interest in the Citarum PSC located onshore west Java, and a 90% operated working interest in the South CPP PSC (formerly the Pamai Taluk joint study agreement) located onshore south central Sumatra. Amounts recorded in the financial statements and work commitments related to these PSCs include amounts paid by Pan Orient on behalf of a partner's carried interest (10% for Batu Gajah, 11% for Citarum and 10% for South CPP).

(3) "Work Program Commitment" is based on the original contract; however, the "Obligation Period Ending" has been extended subject to government approval.

Indonesia financial commitments as provided above represent the current exploration phase that the Company is conducting. If Pan Orient exercises its options to continue beyond the obligation periods noted, additional commitments will be determined on a year-by-year basis through submission of a work program and approval from the Government of Indonesia (GOI). The actual commitments are the work programs themselves as specified in the PSC agreement.

The obligation period shown for Citarum and Batu Gajah differs from the PSC agreement as commitments from previous years have been deferred and rolled forward. Every year the Company submits a work program for each PSC to the GOI and along with it, a request to roll forward any incomplete commitments from the previous year. Although this request is a departure from the original contract, it is considered standard practice in Indonesia. The above obligation periods for Citarum and Batu Gajah are consistent with this practice. In the past, such applications on behalf of Pan Orient have been approved by the GOI and management has no reason to believe that future requests will not be granted approval however there is no guarantee. Upon default of a commitment related to any of the first three years of a PSC the operator is required to relinquish 15% of the original PSC area, the actual acreage at the discretion of the operator. To date, Pan Orient has complied with all relinquishments as required. Depending on the stage of the PSC, failure to fulfill the required commitments may also result in penalty payment equal to the unspent commitments and/or forfeiture of the PSC.

The expenditures as provided in the table above represent the Company's estimated costs in completing the work program requirements. Actual expenditures required to carry out these commitments may be significantly different than the estimates.

The Company intends to fund commitments through existing cash surplus and expected cash flows from Thailand operations.

The Company has entered into a six month commitment for one drilling rig to carry out its planned exploration and development activities in Thailand. The terms of this contract calls for mobilization fees at the start of the contract, demobilization fees at the end of the contract, and varying penalties if the contract is cancelled within the next six months. The Company currently is utilizing one drilling rig in Thailand.

Selected Annual Information

(thousands of Canadian dollars except where indicated)

Years Ended December 31,
2009 2008 2007

FINANCIAL

Oil Sales (bbls/d)	98,236	147,554	24,034
Average daily oil sales (bbls/d)	4,496	4,947	974
Average oil sales price, before transportation (CDN\$/bbl)	\$ 59.87	\$ 81.50	\$ 67.60
Funds flow from operations (Note 1)	52,950	63,897	11,853
Per share – basic	\$ 1.15	\$ 1.40	\$ 0.29
Per share – diluted	\$ 1.10	\$ 1.31	\$ 0.29
Funds flow from operations by region (Note 1)			
Canada	(1,716)	2,490	(1,512)
Thailand	54,811	61,865	13,365
Indonesia	(145)	(458)	-
Total	52,950	63,897	11,853
Net Income	15,145	31,751	4,843
Per share - basic	\$ 0.33	\$ 0.70	\$ 0.12
Per share - diluted	\$ 0.31	\$ 0.65	\$ 0.11
Total Assets	241,781	259,208	142,470
Total Liabilities	66,846	94,661	20,572
Working capital	28,659	42,087	38,586
Working capital plus deposits	32,738	46,386	40,763
Long-term debt	-	-	-
Capital expenditures	63,495	40,491	22,226
Weighted average shares outstanding (thousands)			
Basic	46,008	45,495	41,269
Diluted	48,125	48,927	42,485
Shares outstanding (thousands)			
Basic	46,313	45,568	45,219
Diluted	50,755	50,010	49,731

(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.

Summary of Quarterly Results

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production (bbl/d)	3,370	3,648	4,840	6,165	6,982	4,291	3,894	4,604
Per Unit information (\$/bbl)								
Realized oil price	71.87	68.01	60.01	48.12	56.56	109.54	100.13	77.56
Royalties	(4.46)	(4.31)	(4.31)	(3.82)	(4.55)	(7.11)	(6.63)	(5.38)
Transportation & operating	(9.80)	(8.29)	(6.66)	(4.81)	(4.16)	(4.91)	(5.83)	(4.03)
	57.61	55.41	49.04	39.50	47.85	97.52	87.67	68.15

Financial (\$000's) except as indicated

Oil revenue	22,280	22,824	26,432	26,699	36,329	43,241	35,486	32,498
Interest revenue	26	12	109	304	424	209	93	265
Net (loss) income	6,996	10,617	(5,349)	2,768	10,813	9,058	8,458	3,423
Per share basic (\$)	0.15	0.23	(0.12)	0.06	0.24	0.20	0.19	0.08
Per share diluted (\$)	0.14	0.22	(0.12)	0.06	0.22	0.19	0.17	0.07
Capital expenditures ⁽¹⁾	18,960	16,033	14,906	13,596	16,598	13,627	6,686	3,581
Total assets	241,781	227,198	227,898	271,680	259,208	220,521	196,617	175,279
Shares outstanding (000s)	46,313	46,163	46,168	45,568	45,568	45,650	45,770	45,247

⁽¹⁾ Not including acquisition of Indonesian companies and excluding asset retirement obligation

Quarterly Summary

Q1 2008 – Thailand transportation constraints were resolved and three wells, ranging from 1,200 bbl/d to 3,900 bbl/d (gross) further improved quarterly production to 4,604 bbl/d (net), an increase of 98% over the previous quarter.

Q2 2008 – The Company acquired an operated 90% interest in the Batu Gajah PSC, and a 69% operated interest in the Citarum PSC, onshore Indonesia. In accordance with these acquisitions Pan Orient issued 378,324 common shares to the vendor of both these interests. Also during the quarter Pan Orient received environmental approvals from the Thai government for 32 drilling locations.

Q3 2008 – In Thailand the Company focused on production growth with the spud of 8 wells, a multi-well workover program and 5 new wells brought on-stream. Production gains from the new wells in the quarter were largely offset by natural declines and downtime related to producing wells being shut-in during the drilling of adjacent development wells from the same surface pad. Production averaged 4,291 bbl/d during the quarter, up 10% from the prior quarter. October 2008 production averaged over 6,600 bbl/d net to Pan Orient. This is the first period Indonesia's operations have been included in the Company's operating results. During the quarter this segment incurred \$2.1 million of capital costs and \$0.2 million of administrative expenses. In August of 2008 the Company announced a share repurchase program through which 119,900 common shares were acquired during the quarter and returned to treasury.

Q4 2008 – During the fourth quarter 7 (4.2 net) wells were drilled in Thailand with a success rate of 71%. Production additions from capital activities in the last half of the year resulted in volumes of 6,982 bbl/d for the fourth quarter; an increase of 63% over the third quarter. Although oil prices fell considerably during the period, reducing the company's operating netbacks, lower cash taxes positively impacted funds flow from operations and fourth quarter funds flow was \$25.0 million compared to \$17.4 million for the third quarter; a 44% increase. Foreign exchange gains of \$6.4 million were a prevalent factor in net income of \$10.8 million. Indonesia activities consisted of testing of the Pasundun well in the Citarum block and commencement of the seismic program for Citarum. One of the Company's Indonesian subsidiaries obtained operatorship and a 90% working interest in the South CPP PSC which covers the area associated with the former Pamai Taluk joint study agreement. With respect to the Company's normal course issuer bid another 81,500 common shares were acquired and returned to treasury, for a total of 201,400. In November 2008 Andora issued 2.2 million shares to former Signet dissenting shareholders. As a result, Pan Orient's interest in Andora was reduced from 55.4% to 53.2%.

Q1 2009 – Pan Orient continued to benefit from strong production levels and funds flow from operations in Thailand which fully funded drilling operations in Thailand of \$10.8 million and seismic programs in Indonesia of \$2.7 million. Overall corporate funds flow from operations of \$15.2 million funded capital expenditures of \$13.6 million and increased working capital and deposits by \$1.3 million. Thailand oil production averaged 6,165 barrels per day and generated funds flow from Thailand operations of \$15.8 million. Thailand funds flow from operations of \$28.54/bbl was comprised of oil revenue of \$48.12/bbl, less transportation and operating expenses of \$4.81/bbl, less G&A and other items of \$1.62/bbl and amount to the Thai government of \$13.15/bbl for government royalties, SRB and income tax. During the first quarter of 2009, Pan Orient drilled 7 (net 4.2) wells in concession L44 with a success rate of 71%.

Q2 2009 – Pan Orient had overall corporate funds flow from operations for the quarter of \$16.6 million and capital expenditures of \$14.9 million (with drilling operations in Thailand of \$12.4 million and seismic programs in Indonesia of \$2.4 million). There was a net loss for the quarter of \$5.5 million as a result of an \$11.1 million foreign exchange loss resulting from the strength in the Canadian dollar compared to the Thai baht and US dollar. Thailand oil production averaged 4,840 barrels per day and generated funds flow from Thailand operations of \$17.4 million. Average production in the second quarter of 2009 of 4,840 bbls/d was 1,325 bbl/d, or 21%, lower than the first quarter of 2009 as production additions were less than the production decline from previously drilled wells. Thailand funds flow from operations of \$39.60/bbl was comprised of oil revenue of \$60.01/bbl, less transportation and operating expenses of \$6.66/bbl, less G&A and other items of \$0.09/bbl and amount to the Thai government of \$13.65/bbl for government royalties, SRB and income tax. During the second quarter of 2009, Pan Orient drilled 8 (net 4.8) wells in concession L44. At June 30, 2009, the Company had working capital plus deposits of \$42.0 million and no long-term debt.

Q3 2009 – Funds flow from operations was \$11.2 million and net income was \$10.6 million for the quarter. The operating results for Pan Orient in the third quarter of 2009 compared to the previous quarter reflect higher crude oil prices, lower production volumes, and a \$3.9 million foreign exchange gain upon reclassification of accumulated other comprehensive income related to the Company's investment in Thailand. Third quarter production volumes of 3,648 bbls/d were 1,192 bbls/d less than the 4,840 bbls/d reported in the second quarter of 2009. Thailand funds flow from operations was \$11.2 million or \$33.34/bbl. During the quarter the Company drilled 3 (1.8 net) wells; two of which were successful and one of which is currently being tested. During the period, independent resource estimates were made for the 2009 discoveries at the Bo Rang "A" and "B" structures, L44W and NSE-F1 in L44. The results of this evaluation were an additional 16.9 MMbl (net) of 2C contingent resource volumes for the Bo Rang "A" and "B" and L44W structures and 6.1 MMbl (net) of best case prospective resource volumes for NSE-F1. The contingent resource estimates are contingent upon approval from the Government of Thailand of the Company's production license application. At September 30, 2009, working capital plus deposits was \$39.8 million and the Company had no long-term debt.

Q4 2009 – Funds flow from operations for the fourth quarter was \$9.9 million compared with \$11.2 million for the third quarter of 2009 and \$25.0 million for the fourth quarter of 2008. Net income was \$7.0 million for the quarter versus \$10.6 million in the third quarter of 2009. There was a \$1.3 million decrease in funds flow from operations compared with the third quarter of 2009. In the fourth quarter of 2009, the Company recorded a \$0.7 million realized foreign exchange loss as a result of the strengthening Canadian dollar and the movement of funds from the Thailand operations to Canada. The financial results for Pan Orient in the fourth quarter of 2009 compared to the third quarter of 2009 reflect an 8% decrease in oil production offset by a 6% increase in realized crude oil prices, and foreign exchange losses due to the strengthening Canadian dollar. Thailand oil sales for the fourth quarter of 2009 was 3,370 BOPD compared with 3,648 BOPD for the third quarter of 2009. Pan Orient continued its active drilling program in Thailand. In the fourth quarter of 2009 with four wells (2.4 net) in Concession L44 and two exploration wells (2.0 net) in the 100% owned Concession L53. For the fourth quarter of 2009, Thailand generated \$11.1 million in funds flow from operations, compared with \$11.2 million the third quarter of 2009 primarily as a result of the 8% decrease in oil sales volumes offset by a 6% increase in the realized price for crude oil. For the quarter, transportation expenses were \$2.45/bbl, operating expenses \$7.35/bbl, general and administrative expenses \$2.37/bbl and amounts to the Thailand government of \$23.94/bbl resulted in after tax funds flow from operations of \$35.69/bbl. Operating expenses increased to \$2.3 million or \$7.35/bbl in the fourth quarter from \$2.0 million or \$5.95/bbl in the third quarter of 2009 as a result of lower production levels and additional expenses for maintenance and water hauling. At December 31, 2009, working capital plus deposits was \$32.7 million and the Company had no long-term debt.

Accounting Standards

Recent Accounting Pronouncements

Business Combinations

In January 2009, the CICA issued section 1582, “Business Combinations,” which will replace CICA section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent consideration is to be recognized at fair value at the acquisition date and will be measured at fair value through earnings each period until settled. Currently only contingent consideration that is resolved and payable is included in the cost to acquire the business. In addition, negative goodwill (bargain purchase gain) is required to be recognized immediately in earnings, unlike the current requirement to first reduce certain non-current assets in the purchase price allocation with any excess being recognized as an extraordinary gain. Section 1582 is effective January 1, 2011 with prospective application and early adoption permitted.

Consolidated Financial Statements

In January 2009, the CICA issued section 1601, “Consolidated Financial Statements” which will replace the associated portion of CICA section 1600 of the same name. This guidance requires uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. These are not explicitly required under the current standards. Section 1601 is effective on January 1, 2011 with early adoption permitted. This standard is not anticipated to have a significant effect on the Company.

Non-controlling Interests

In January 2009 the CICA issued section 1602, “Non-controlling Interests” which will replace CICA section 1600, “Consolidated Financial Statements”. Minority interest is now referred to as non-controlling interest and is presented within equity. Under this new guidance, when there is a loss of control there is a gain or loss recognized on the sold and retained interests whereas increases or decreases in a parent’s ownership interest while retaining control is a capital transaction. Section 1602 is effective on January 1, 2011 with early adoption permitted.

Financial Instruments

In May 2009, the CICA amended Section 3862, “*Financial Instruments – Disclosures*” to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level One are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair values of assets and liabilities in Level Two include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Fair values in Level Three are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments were in effect for Pan Orient for the year ended December 31, 2009; however, there was no effect on the Company.

International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA’s Accounting Standards Board confirmed that IFRS will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. Pan Orient Energy Corp will be required to report its results in accordance with IFRS beginning in 2011. The Company has developed a changeover plan to complete the transition to IFRS by January

1, 2011, including the preparation of 2010 required comparative information.

The Company is assessing the potential impacts of this changeover and has developed its implementation plan accordingly. The quantitative impact on our future financial position and results of operations is not reasonably determinable at this point in time, however, the Company expects the highest impact will be in the following areas:

Property, Plant and Equipment

Under Canadian GAAP, Pan Orient follows the CICA's guideline on full cost accounting in which all costs directly associated with the acquisition of, the exploration for, and the development of natural gas and crude oil reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each country cost centre are depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs. Upon transition to IFRS, the Company will be required to adopt new accounting policies for exploration and evaluation costs and development costs.

Exploration and evaluation costs are those expenditures for an area or project for which technical feasibility and commercial viability have not yet been determined. Under IFRS, Pan Orient intends to initially capitalize these costs as Exploration and Evaluation assets on the balance sheet. When the area or project is determined to be technically feasible and commercially viable, the costs will be transferred to PP&E. Unrecoverable exploration and evaluation costs associated with an area or project will be expensed.

Development costs include those expenditures for areas or projects where technical feasibility and commercial viability have been determined. Under IFRS, Pan Orient expects to continue to capitalize these costs within PP&E on the balance sheet. However, the costs will be depleted on a unit-of-production basis over an area level (unit of account) instead of the country cost centre level currently utilized under Canadian GAAP. Pan Orient has not finalized the areas or the inputs to be utilized in the unit-of-production depletion calculation. Under IFRS, divestitures will generally result in a gain or loss recognized in net earnings. Under Canadian GAAP, proceeds of divestitures are normally deducted from the full cost pool without recognition of a gain or loss unless the deduction would result in a change to the depletion rate of 20 percent or greater, in which case a gain or loss is recorded.

Pan Orient expects to adopt the IFRS 1 exemption, which allows the Company to deem its January 1, 2010 IFRS PP&E costs to be equal to its Canadian GAAP historical net book value. On January 1, 2010, the IFRS exploration and evaluation costs will be equal to the Canadian GAAP unproved properties balance and the IFRS development costs will be equal to the full cost pool balance. Pan Orient will allocate this full cost pool over reserves to establish the area level depletion units.

Asset Retirement Obligation

Under Canadian GAAP, ARO is initially measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. Existing liabilities are not re-measured using current discount rates. Under IFRS, ARO is measured as the best estimate of the expenditure to be incurred and requires the use of current discount rates at each re-measurement date. Generally, the change in discount rates results in a balance being added to or deducted from PP&E.

As a result of Pan Orient's intended use of the IFRS 1 assets exemption, the Company is required to revalue its January 1, 2010 ARO balance and recognize the adjustment in retained earnings.

Impairment

Under Canadian GAAP, Pan Orient is required to recognize an impairment loss if the carrying amount exceeds the undiscounted cash flows from proved reserves for the country cost centre. If an impairment loss is to be recognized, it is then measured at the amount the carrying value exceeds the sum of the fair value of the proved and probable reserves and the costs of unproved properties.

Under IFRS, Pan Orient is required to recognize and measure an impairment loss if the carrying value exceeds the recoverable amount for a cash-generating unit. Under IFRS, the recoverable amount is the higher of fair value less cost to sell and value in use. Impairment losses, other than goodwill, are reversed under IFRS when there is an increase in the recoverable amount. Pan Orient will group its assets into cash-generating units based on the independence of cash inflows from other assets or other groups of assets.

Income Taxes

In transitioning to IFRS, the Company's future tax liability will be impacted by the tax effects resulting from the IFRS changes discussed above. Pan Orient continues to assess the impact that the IFRS income tax principles may have on the Company.

Other IFRS 1 Considerations

As permitted by IFRS 1, Pan Orient's foreign currency translation adjustment, currently the only balance in Pan Orient's Accumulated Other Comprehensive Income, will be deemed to be zero and the balance will be reclassified to retained earnings on January 1, 2010. Accordingly, retrospective restatement of foreign currency translation adjustments under IFRS principles will not be performed.

The financial statements for March 31, 2011 will contain all IFRS accounting policies and disclosures, as well as reconciliations outlining the adjustments made from Canadian GAAP to IFRS on date of transition.

The Company has completed the diagnostic phase which assessed the impact of adopting IFRS on existing accounting policies, data systems, internal controls over financial reporting and business activities. The team is partaking in training sessions as required and reports to the Chief Financial Officer and the audit committee. The initial implementation phase is expected to be completed in mid 2010.

The Company will continue to update its IFRS changeover plan to reflect new and amended accounting standards issued by the International Accounting Standards Board.

Risk Factors

Exploration, Development and Production

The long-term success of Pan Orient will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. These risks are mitigated by Pan Orient through the use of skilled staff, focusing exploration efforts in areas in which the Company has existing knowledge and expertise or access to such expertise, using up-to-date technology to enhance methods, and controlling costs to maximize returns. Despite these efforts, oil and natural gas exploration involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that Pan Orient will be able to locate satisfactory properties for acquisition or participation or that the Company's expenditures on future exploration will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to accurately project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion, infrastructure and operating costs. In addition, drilling hazards and/or environmental damage could greatly increase the costs of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-in of wells resulting from extreme weather conditions or natural disasters, insufficient transportation capacity or other geological and mechanical conditions. As well, approved activities may be subject to limited access windows or deadlines which may cause delays or additional costs. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The nature of oil and gas operations exposes Pan Orient to risks normally incident to the operation and development of oil and natural gas properties, including encountering unexpected formations or pressures, blow-outs, craterings and fires, all of which could result in personal injuries, loss of life and damage to the property of the Company and others. The Company has both safety and environmental policies in place to protect its operators and employees, as well as to meet the regulatory requirements in those areas where it operates. In addition, the Company has liability insurance policies in place, in such amounts as it considers adequate. The Company will not be fully insured against all of these risks, nor are all such risks insurable.

The Company's foreign operations also expose it to risks that are unique to the different countries it has current or future operations in. Some of the areas that Pan Orient has operations in may be considered politically and economically unstable. Exploration or development activities in such countries may require protracted negotiations with host governments, national oil companies and third parties and are frequently subject to economic and political considerations such as taxation, nationalization, expropriation, inflation, currency fluctuations, increased regulation and approval requirements, corruption and the risk of actions by terrorist or insurgent groups, any of which could adversely affect the economics of exploration or development projects.

Oil and Natural Gas Prices

The price of oil and natural gas will fluctuate based on factors beyond the Company's control. These factors include demand for oil and natural gas, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulations, including regulations relating to environmental protection, royalties, allowable production, pricing, importing and exporting of oil and natural gas. Fluctuations in price will have a positive or negative effect on the revenue to be received by the Company.

Reserves

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids, reserves and cash flows to be derived therefrom, including many factors beyond the Company's control. In general, estimates of

economically recoverable oil and natural gas reserves and the future net cash flows therefrom 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 oil and natural gas, 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 reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

The Company's actual future net cash flows as estimated by independent reserve engineers will be affected by many factors which include, but are not limited to: actual production levels; supply and demand for oil and natural gas; curtailments or increases in consumption by oil and natural gas purchasers; changes in governmental regulation; taxation changes; the value of the Canadian dollar relative to the Company's functional currencies; and the impact of inflation on costs.

Actual production and cash flows derived therefrom will vary from the estimates contained in the applicable engineering reports. The reserve reports are based in part on the assumed success of activities the Company intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the engineering reports will be reduced to the extent that such activities do not achieve the level of success assumed in the calculations.

Pursuit of New Technology

Capital projects that rely largely or partly on new technologies present additional exploration and development risks and the success of projects incorporating new technologies cannot be assured.

Current SAGD technologies for in-situ recovery of heavy oil are energy intensive, requiring significant consumption of natural gas and other fuels in producing steam that is used in the recovery process. The amount of steam required in the production process can also vary and affect costs. The performance of the reservoir can also affect the timing and levels of production using this technology. Additional risk may include but are not limited to: the ability to obtain necessary environmental and other regulatory approvals; risks relating to schedule, resources and costs, including the availability and cost of materials, equipment and qualified personnel; the impact of general economic, business and market conditions; the impact of weather conditions; the Company's ability to finance growth if commodity price decline and stay at low levels for an extended period; and the effect of changing government regulations and public expectations in relation to the impact of oil sand development on the environment. Furthermore, costs estimates for major projects involve uncertainties and evolve in stages.

Permits and Licenses

The operations of the Company require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Foreign Activities

The Company's business operates in a number of foreign countries where there are added risks and uncertainties due to the different economic, cultural and political environments. Some of these risks include nationalization and expropriation, social unrest and political instability, uncertainties in perfecting mineral titles, trade barriers and exchange controls and material changes in taxation regulations.

Substantial Capital Requirements and Liquidity

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If Pan Orient's revenues or reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet the Company's requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Additional Funding Requirements

The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available or available on favourable terms.

Reliance on Operators and Key Employees

To the extent the Company is not the operator of its oil and natural gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of the Company will be largely dependent upon the performance of its management and key employees. The Company has no key-man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Company.

Management of Growth

Any expansion of the Company's business may place a significant strain on its financial, operational and managerial resources and there can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth successfully. Any inability of the Company to manage growth successfully could have a material adverse effect on the Company's business, financial condition and results of operations.

Government Regulations

The Company may be subject to various laws, regulations, regulatory actions and court decisions that can have negative effects on the Company. Changes in the regulatory environment imposed upon Pan Orient could adversely affect the ability of the Company to attain its corporate objectives.

Litigation

From time to time, Pan Orient may be the subject of litigation arising out of the Company's operations. Specific disclosure and the assessed risk associated with current legal proceedings are disclosed under the heading "Legal Proceedings".

Title to Properties

Although title reviews will be performed according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of Pan Orient which could result in a reduction of the Company's revenue.

In Canada the private land owners own oil and gas rights and lease those rights to corporations who are responsible for the development of such rights within the time frames described in the leases. This practice differs distinctly in some foreign countries in which Pan Orient does business. In certain countries, the state often grants interests in large tracts of lands or offshore fields and maintains control over the development of the oil and gas rights, in some cases through equity participation in the exploration and development of the rights. This usually includes the imposition of obligations on Pan Orient to complete minimum work within specified time frames. Transfers of interests typically require a state approval, which may delay or otherwise impede transfers. In addition, if a dispute arises in Pan Orient's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign arbitration tribunals or foreign courts.

Conflicts of Interest

The directors and executive officers of the Company may be or may become engaged in different areas of the oil and gas exploration and production industries, both on their own behalf and on behalf of other companies, and situations may arise where the directors and officers may be in direct competition with the Company. Conflicts of interest, if any, which arise will be subject to and governed by the procedures prescribed by the ABCA. The provisions of the ABCA require a director or officer of a corporation who is a party to, or is a director or an officer of or has a material interest in any person who is a party to, a material contract or proposed material contract with the Company to disclose his interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

Competition

The industry is highly competitive in the acquisition of exploration prospects and the development of new sources of production and the sale of oil and natural gas. The Company's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Company. The Company's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and

marketing of oil and natural gas include price and methods and reliability of delivery.

Environmental Concerns

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial, federal and international legislation. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders in respect of the Company or the properties. Such legislation may be changed to impose higher standards and potentially more costly obligations on the Company. There can be no assurance that the Company will be able to satisfy its actual future environmental and reclamation obligations.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company or its subsidiaries, as the case may be, becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Prior to drilling, the Company or its subsidiaries, as the case may be, will obtain insurance in accordance with industry standards to address certain of these risks. However, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Company or its subsidiaries, as the case may be, may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The occurrence of a significant event that the Company may not be fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position.

Regulatory Matters

The Company's operations will be subject to a variety of federal and provincial laws and regulations, including income tax laws and laws and regulations relating to the protection of the environment. The Company's operations may require licenses from various governmental authorities and there can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out planned exploration and development projects.

Greenhouse Gas Emissions

Canada is currently a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder. Canada, as an Annex B party to the Kyoto Protocol, is required to establish legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gasses" (GHG). The Government of Canada has announced its intention to regulate GHG and other air pollutants and is currently developing a framework that outlines its clean air and climate change action plan, including targets to reduce GHG emissions and a commitment to regulate industry on an emissions intensity basis for several years. Currently there are few technical details regarding the implementation of the Government's plan to regulate industrial GHG emissions, but the Government has made a commitment to work with industry to develop the specifics. It is premature to predict what impact a federal GHG emissions regulatory regime could have on Pan Orient but it is likely that any mandated reduction in GHG emissions will increase forecasted costs with respect to the Company's interests in Sawn Lake.

Third Party Credit Risk

Pan Orient is or may be exposed to third party credit risk through the sale of its production, contractual arrangements with its current or future joint venture partners and other parties. In the event that such entities fail to meet their contractual obligations to Pan Orient, such failures could have a material adverse effect on the Company and its cash flows.

Currently 100% of the Company's production is sold to a refinery owned by the Thai National Oil Company. Risk of non collection is minimal as Pan Orient is paid for its production on a monthly basis, typically within a week of the end of the month.

Taxes

Calculations for required filings in Canada and Thailand are based on interpretation of complex laws and regulations and are subject to reassessment by the applicable taxation authorities. The Company is currently subject to Thai income tax as well as a special remuneratory benefit (SRB) tax on profits from its production in Thailand. A successful reassessment of the Company's tax filings or any change in regulations may have a significant impact on current and future taxes payable.

Furthermore, Thai income tax and SRB are subject to several variables, primarily production levels, cash flows, capital expenditures and changes in government legislation but also changes in Thailand's consumer price index, wholesale price index, cumulative meters drilled on the concession and for certain concessions, changes in the exchange rate between the baht and the USD. These factors, many of which are beyond the Company's control, may have a material effect on the company's tax expense.

Additional Information

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



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