PAN ORIENT ENERGY CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2010

May 19, 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 May 19, 2010 and should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three months ended March 31, 2010 and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2009. 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 May 19, 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:

	Three Months Ended March 31	
($000s)	**2010**	**2009**
Cash flow from operating activities	**16,460**	16,935
Changes in non-cash working capital	**(4,124)**	(1,697)
Funds flow from operations	**12,336**	15,238

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, L53 commenced drilling in the fourth quarter of 2009, and L33 is undeveloped. Pan Orient is the operator for all four concessions with a 60% working interest in concessions SW1A, L44 and L33, and a 100% working interest in concession L53.

Pan Orient sells crude oil with 95% of crude oil sales coming from L44, and the remaining 5% of oil sales coming 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 from concessions SW1A and L44 at December 31, 2009, as evaluated by independent reserve engineers, were 36.7 MMbbl net to Pan Orient.

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 produced approximately 13,500 barrels of crude oil into tanks under a 90 day production test which expired on April 2, 2010. The contingent resource report completed in April 2010 for the L53-A oil discovery assigned proved plus probable reserves at March 31, 2010, as evaluated by independent reserve engineers, of 1.8 MMbbl net to Pan Orient. This contingent resource report will form the basis of a production license ("PL") application which is currently being submitted to the Thailand Department of Mineral Fuels which will cover two square kilometers of the L53-A structure. Upon approval of the PL, the crude oil will be sold, the L53-A well will be brought back on-stream and additional development of the pool will commence in 2010.

Pan Orient is monitoring the current political situation in Thailand. On May 19, 2009 Pan Orient received a request from PTT, the Thailand national oil company, to curtail crude oil deliveries to the PTT operated Bangkok refinery for the next 24 hours. This request by PTT was a precautionary measure instituted in response to recent events in the Thai capital, Bangkok. Upon receipt of notice from PTT, Pan Orient staff immediately instituted a reduction in field production rates to 5,600 BOPD (3,360 BOPD net to Pan Orient) in order to have the option to continue producing for a three to four day period into approximately 24,000 barrels of onsite oil storage capacity. Pan Orient has experienced no security related issues at the company's production site, located approximately 260 kilometers north of Bangkok. The company is also not aware of any security related issues at the PTT operated Bangkok refinery, other than this 24 hour production curtailment request. Pan Orient has no way of knowing the length of time the present situation will continue and has been informed by PTT that Pan Orient will be updated every 24 hours on the status of deliveries to the Bangkok refinery. As detailed above, production operations will continue at reduced rates into existing tank storage at the Wichian Buri production site. Pan Orient will provide immediate updates to the current situation as further information becomes available or the Company becomes aware of any changes to the current situation.

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 has been completed. 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 in July 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 53.5% 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. In 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 March 31, 2010	2009	Change
FINANCIAL			
Oil revenue, before royalties and transportation expense	**25,038**	26,699	-6%
Funds flow from operations (Note 1)	**12,336**	15,238	-19%
Per share – basic	**$ 0.26**	$ 0.33	-22%
Per share – diluted	**$ 0.25**	$ 0.32	-21%
Funds flow from operations by region (Note 1)			
Canada	**29**	(910)	
Thailand	**12,364**	16,057	-23%
Indonesia	**(57)**	91	
Total	**12,336**	15,238	-19%
Net income attributable to common shareholders	**3,405**	2,881	18%
Per share - basic	**$ 0.07**	$ 0.06	21%
Per share - diluted	**$ 0.07**	$ 0.06	17%
Working capital	**21,498**	41,919	-49%
Working capital plus deposits	**25,358**	47,705	-47%
Long-term debt	**-**	-	
Capital expenditures (Note 2)	**20,269**	13,596	49%
Shares outstanding (thousands)	**47,414**	45,568	4%
Funds flow from operations per barrel			
Canada operations	**$ 0.09**	$ (1.64)	
Thailand operations	**36.01**	28.94	24%
Indonesia operations - G&A expense	**(0.17)**	0.15	
	$ 35.93	$ 27.45	31%
Capital Expenditures (Note 2)			
Canada	**63**	145	-56%
Thailand	**13,419**	10,778	25%
Indonesia	**6,787**	2,673	154%
Total	**20,269**	13,596	49%
Working Capital and Deposits			
Working Capital & Deposits - beginning of period	**32,738**	46,386	-29%
Funds flow from operations (Note 1)	**12,336**	15,238	-19%
Capital expenditures (Note 2)	**(20,269)**	(13,596)	49%
Non-cash settlement of Andora receivable	**(600)**	-	
Foreign exchange impact on working capital	**(373)**	(323)	15%
Net proceeds on share transactions	**1,526**	-	
Working Capital & Deposits - end of period	**25,358**	47,705	-47%
Canada Operations			
Interest income	**8**	19	
General and administrative expense	**29**	(670)	
Realized foreign exchange loss	**(8)**	(223)	
Foreign new ventures expenditures	**-**	(36)	
Funds flow from operations	**29**	(910)	
Funds flow from operations per barrel			
Interest income	**$ 0.02**	$ 0.03	
General and administrative expense	**0.09**	(1.21)	
Realized foreign exchange loss	**(0.02)**	(0.40)	
Foreign new ventures expenditures	**-**	(0.06)	
	$ 0.09	$ (1.64)	

(thousands of Canadian dollars except where indicated)	Three Months Ended March 31, 2010	2009	Change
Thailand Operations			
Total production	343,400	554,820	-38%
Average daily oil production (bbls/d)	3,816	6,165	-38%
Average oil sales price, before transportation (CDN$/bbl)	$ 72.91	$ 48.12	52%
Reference Price (volume weighted) and differential			
Crude oil (WTI $US/bbl)	$ 78.83	$ 43.04	83%
Exchange Rate $US/$Cdn	1.058	1.257	-16%
Crude oil (WTI $Cdn/bbl)	$ 83.39	$ 54.08	54%
Sales price / WTI reference price	87%	89%	-2%
Funds flow from operations			
Crude oil sales	25,038	26,699	-6%
Government royalty	(1,589)	(2,095)	-24%
Other royalty	(21)	(21)	
Transportation expense	(864)	(1,253)	-31%
Operating expense	(2,198)	(1,415)	55%
Field Netback	20,366	21,915	-7%
General and administrative expense	(1,274)	(943)	35%
Interest Income	28	285	-90%
Special Remuneratory Benefit (SRB)	(2,169)	(2,920)	-26%
Current income tax	(4,587)	(2,280)	101%
Funds flow from operations	12,364	16,057	-23%
Funds flow from operations per barrel (CDN$/bbl)			
Crude oil sales	$ 72.91	$ 48.12	52%
Government royalty	(4.63)	(3.78)	23%
Other royalty	(0.05)	(0.04)	35%
Transportation expense	(2.52)	(2.26)	11%
Operating expense	(6.40)	(2.55)	151%
Field Netback	59.31	39.50	50%
General and administrative expense	(3.70)	(1.70)	118%
Interest Income	0.08	0.51	-84%
Special Remuneratory Benefit (SRB)	(6.32)	(5.26)	20%
Current income tax	(13.36)	(4.11)	225%
Thailand - Funds flow from operations	$ 36.01	$ 28.94	24%
Government royalty as percentage of sales	6%	8%	-2%
SRB as percentage of crude oil sales	9%	11%	-2%
Income tax as percentage of crude oil sales	18%	9%	10%
As percentage of crude oil sales			
Expenses - transportation, operating, G&A and other	17%	14%	4%
Government royalty, SRB and income tax	33%	27%	6%
Funds flow from operations, before interest income and realized foreign exchange gain	49%	59%	-10%
Wells drilled			
Gross	5	7	-29%
Net	3	4.2	-29%

(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.

Overall Performance

- The operating results for Pan Orient in the first quarter of 2010 compared to the previous quarter reflect a 13% increase in production volumes, a 1% increase crude oil prices, and a 4% reduction in operating expenses.
  - Funds flow from operations for the first quarter of 2010 was $12.3 million compared with $9.9 million for the fourth quarter of 2009 and $15.2 million for first quarter of 2009. Funds flow from operations per share was $0.26 for the first quarter of 2010.
  - Net income attributable to common shareholders of $3.4 million, or $0.07 per share, for the three months ended March 31, 2010 compared with net income attributable to common shareholders of $7.0 million, or $0.15 per share, for the fourth quarter of 2009 and $2.9 million, or $0.06 per share, for the first quarter of 2009. The decrease in net income attributable to common shareholders is the result of future income tax expense of $4.9 million in Q1 2010 versus a future income tax recovery of $0.7 million in Q4 2009.
- Thailand oil sales volumes for the first quarter of 2010 were 3,816 BOPD (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). This compares with 3,370 BOPD for the fourth quarter of 2009 and 6,165 BOPD in the first quarter of 2009. The oil sales increase compared with oil sales in the fourth quarter of 2009 is primarily the result of oil sales from new wells at Bo Rang drilled in the fourth quarter of 2009 and the first quarter of 2010. For the first quarter of 2010, the Bo Rang field contributed 44% of oil sales volume.
- For the first quarter of 2010, operations in Thailand generated $12.4 million in funds flow from operations, with transportation expenses of $2.52 per barrel, operating expenses of $6.40 per barrel, G&A of $3.70 and funds flow from operations per barrel of $36.01. The WTI reference price for crude oil increased 2% during the quarter to Cdn $83.39 per barrel from Cdn $81.42 per barrel in the fourth quarter of 2009, and increased from Cdn $54.08 in the first quarter of 2009.
  - Operating expenses decreased to $2.2 million or $6.40 per barrel in the first quarter from $2.3 million or $7.35 per barrel in the fourth quarter of 2009 as a result of lower expenses for repairs and maintenance and higher oil sales volumes.
  - Thailand G&A in the current quarter includes $758,000 or $2.20 per barrel of severance and other non routine expenses associated with the reduction of expatriate personnel in Thailand.
  - For the first quarter of 2010, Thailand crude oil revenue was allocated 17% to expenses for transportation, operating, and general & administrative, 33% to the government of Thailand in the form of royalties, Special Remuneratory Benefit and Income Tax, and 49% to Pan Orient.
- Pan Orient continued active capital programs in both Thailand and Indonesia in the first quarter of 2010. Total capital expenditures for the quarter were $20.3 million, with $13.4 million in Thailand and $6.8 million in Indonesia.
- Total capital expenditures of Pan Orient in the first quarter of $20.3 million were financed 61% from the $12.4 million of after tax funds flow from operations in Thailand and $7.9 million, or 39%, from working capital. Capital expenditures in the first quarter of 2010 included $4.4 million to finish the drilling and testing of the two exploration wells in L53/48.
- Capital expenditures for the first quarter of 2010 in Thailand focused on development in Concession L44 with two horizontal development wells at the Bo Rang "B" field discovered in 2009; $4.4 million of expenditures in Concession L53 (100% working interest) for finishing the two exploration wells drilled at the end of 2009; three exploration / appraisal wells at Na Sanun East; and approximately $1.3 million in expenditures for future drilling sites at the Bo Rang, NSE-F1 and L44-W fields. The five wells drilled during the first quarter of 2010 resulted in two new producing horizontal wells at Bo Rang "B", which had combined oil sales of 762 BOPD in April net to Pan Orient, and one new Na Sanun East producing well at NSE-E3 which commenced production in April and is currently producing at approximately 450 BOPD net to Pan Orient. The NSE-G3 exploration well is currently suspended and will be re-entered and sidetracked in order to test a deeper volcanic objective that was encountered at NSE-G1 with 100 meters of oil stained potential volcanic reservoir. The NSE-H3 appraisal well experienced a collapsed open hole section through the main reservoir and is currently waiting for a work-over to clean out and deepen the well.
- 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. Capital expenditures in the first quarter of 2010 were $4.4 million for completing the drilling and testing of the wells. The L53-A well produced approximately 13,500 barrels of crude oil into tanks under a 90 day production test which expired on April 2nd. This crude oil is being stored in tanks until a PL Application is approved. Pan Orient is in the process of

preparing the PL Application covering two square kilometers of the L53-A structure that is anticipated to be submitted to the Thailand Department of Mineral Fuels ("DMF") on May 24, 2010. The contingent resource report for the 2009 L53-A oil discovery as at March 31, 2010 indicated 2C contingent resources of 1.8 million barrels, with 1.4 million barrels assigned to the two square kilometer area of the proposed PL, and this report will form the basis of the PL application currently being submitted to the Thailand Department of Mineral Fuels. Upon approval of the PL, the crude oil will be sold, the L53-A well will be brought back on-stream and additional development of the pool will commence in 2010.

- Capital expenditures in Indonesia of $6.8 million in the first quarter of 2010 are primarily associated with the two seismic programs underway. The seismic program of 500 kilometers of 2D seismic in the Batu Gajah Production Sharing Contract area in central Sumatra has been completed, and will be followed by the initial drilling of three exploration wells commencing in the fourth quarter of 2010. The seismic program of 1,110 kilometers of 2D seismic in the Citarum Production Sharing Contract area in central Java is scheduled for completion in July 2010, and drilling of the three exploration wells will follow the drilling program at Batu Gajah.
- Pan Orient continues to maintain its financial strength and flexibility. At March 31, 2010 Pan Orient had $25.4 million of working capital and deposits, and no long-term debt. Of the working capital, $12.1 million is cash balances in Canada, and this cash balance in Canada has increased to $14.7 million at May 19, 2010. For the three months ended March 31, 2010 Pan Orient had internally generated funds flow from operations of $12.3 million which funded 61% of the $20.3 million of total capital expenditures in Thailand, Indonesia and Canada. The capital expenditures for the first quarter of 2010 included $4.4 million for completing the drilling and testing of the two exploration wells in Concession L53, and the 2010 plans do not currently include this level of expenditures in Concession L53. In addition, at March 31, 2010 Pan Orient had $6.6 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.

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 price, discounted for the paraffin content of its oil, was 87% of the WTI reference price for the three months ended March 31, 2010. In Q1 2010 the WTI $CDN reference price was 54% higher than in Q1 2009 and 2% higher than Q4 2009.

Thailand oil sales volumes for the first quarter of 2010 were 3,816 BOPD (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). This compares with 3,370 BOPD for the fourth quarter of 2009 and 6,165 BOPD in the first quarter of 2009. The oil sales increase compared with oil sales in the fourth quarter of 2009 is primarily the result of oil sales from new wells at Bo Rang drilled in the fourth quarter of 2009 and the first quarter of 2010. Oil sales are lower compared to the first quarter of 2009 due to production declines at Na Sanun East in the first half of 2009 as production additions from new wells did not replace the production declines.

Royalties

	Three Months Ended March 31	
	2010	**2009**
Royalties - $000s	**1,610**	2,116
Royalties - $/bbl	**4.68**	3.81
Royalties - % of revenue	**6.4**	7.9

The Company pays two types of royalties: 1) to the Thai government on all production volumes; and 2) an 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

($000s)	Three Months Ended March 31 2010	2009
Transportation expenses	**864**	1,253
Operating expenses	**2,198**	1,415
Total production expenses	**3,062**	2,668
($/bbl)		
Transportation expenses	**2.52**	2.26
Operating expenses	**6.40**	2.55
Total production expenses	**8.92**	4.81

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 52% of the Company's operating expenses relate to personnel and the field office, and the remaining 48% are related to well and well site operations.

Depletion, Depreciation and Accretion

	Three Months Ended March 31 2010	2009
Depletion, depreciation and accretion – $000s	**3,664**	6,759
Depletion, depreciation and accretion – $/bbl	**10.67**	12.18

Depletion, depreciation and accretion ("DD&A") expense for the three months ended March 31, 2010 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 2009, 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 March 31, 2010. Excluded from the depletable base was $25.0 million (2009 - $16.3 million) related to unproved properties in Thailand and equipment for future exploration and development activities. In addition, Q1 2010 production was 38% lower than the comparable period in 2009. As a result, DD&A expense per barrel for the three months ended March 31, 2010 is 12% lower than the comparable period in 2009.

Costs subject to depletion included $21.7 million (2009 - $11.1 million) of estimated future development costs for proved reserves.

Taxes

($000s)	Three Months Ended March 31 2010	2009
Special remuneratory benefit	**2,169**	2,920
Current tax	**4,587**	2,280
Total current tax	**6,756**	5,200
Future tax expense	**4,851**	5,441
Total tax expense	**11,607**	10,641

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 Q1 2010 compared with 27% in Q1 2009 due to lower oil sales revenue, additional drilling in Concession L44 and changes in the price indices.

Income tax is 50% of taxable income which is calculated based on funds flow from operations less capital expenditures (deductible at varying rates), SRB, and other permitted deductions. Income taxes of $4.6 million for the quarter were higher than the prior year quarter mainly due to a lower level of reinvestment into drilling programs in Concession L44. The capital expenditures related to Concession L53 do not reduce current income taxes as there is no production at this time. Because of the deductions allowed for capital spent, the effective rates of these taxes can vary significantly from the actual tax rates.

For the quarter ended March 31, 2010 SRB was 9% (2009 – 11%) and income tax was 18% (2009 – 9%) of total revenue.

Taxes payable of $21.5 million at March 31, 2010 represents SRB for 2009, SRB for the three months ended March 31, 2010, and income tax from September 1, 2009 to March 31, 2010.

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

	Three Months Ended March 31	
	2010	**2009**
G&A, net of overhead recoveries - $000s	**2,413**	2,224
Capitalized G&A	**(1,110)**	(702)
G&A, net - $000s	**1,303**	1,522
G&A – $/bbl	**3.80**	2.74

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 quarter has been affected by growth of the operations in Indonesia as well as several payments and offsetting recoveries in Canada and Thailand which are not expected to recur to the same magnitude in future periods. These items include severance payments and other non-routine expenses associated with the reduction of expatriate personnel in Thailand and the annual bonus for Canadian personnel relating to the year ended December 31, 2009.

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 quarter 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 2009 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

	Three Months Ended March 31	
($000s)	**2010**	**2009**
Thailand	**13,419**	10,778
Indonesia	**6,787**	2,673
Canada	**63**	145
Total capital expenditures	**20,269**	13,596

Thailand
Capital expenditures for the first quarter of 2010 in Thailand focused on development in Concession L44 with two horizontal development wells at the Bo Rang “B” field discovered in 2009; $4.4 million of expenditures in Concession L53 (100% working interest) for finishing the two exploration wells drilled at the end of 2009; three exploration / appraisal wells at Na Sanun East; and approximately $1.3 million in expenditures for future drilling sites at the Bo Rang, NSE-F1 and L44-W fields. The five

wells drilled during the first quarter of 2010 resulted in two new producing horizontal wells at Bo Rang “B”, which had combined oil sales of 762 BOPD in April net to Pan Orient, and one new Na Sanun East producing well at NSE-E3 which commenced production in April and is currently producing at approximately 450 BOPD net to Pan Orient. The NSE-G3 exploration well is currently suspended and will be re-entered and sidetracked in order to test a deeper volcanic objective that was encountered at NSE-G1 with 100 meters of oil stained potential volcanic reservoir. The NSE-H3 appraisal well experienced a collapsed open hole section through the main reservoir and is currently waiting for a work-over to clean out and deepen the well.

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. Capital expenditures in the first quarter of 2010 were $4.4 million for completing the drilling and testing of the wells. The L53-A well produced approximately 13,500 barrels of crude oil into tanks under a 90 day production test which expired on April 2nd. This crude oil is being stored in tanks until a PL Application is approved. Pan Orient is in the process of preparing the PL Application covering two square kilometers of the L53-A structure that is anticipated to be submitted to the Thailand Department of Mineral Fuels (“DMF”) on May 24, 2010. The contingent resource report for the 2009 L53-A oil discovery as at March 31, 2010 indicated 2C contingent resources of 1.8 million barrels, with 1.4 million barrels assigned to the two square kilometer area of the proposed PL, and this report will form the basis of the PL application currently being submitted to the Thailand Department of Mineral Fuels. Upon approval of the PL, the crude oil will be sold, the L53-A well will be brought back on-stream and additional development of the pool will commence in 2010.

Indonesia
The Company’s seismic program for Batu Gajah has been completed and the seismic program for Citarum is currently underway and drilling is expected to commence in the second half of 2010 with 3 exploration wells planned for Batu Gajah and 3 exploration wells on Citarum. Total Q1 2010 capital costs in Indonesia were $6.8 million, with $5.9 million related to seismic activities and the remainder related to capitalized general and administrative expenses.

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 March 31, 2010 Pan Orient’s cash and cash equivalents was $41.3 million compared to $44.8 million at December 31, 2009. At March 31, 2010, $27.8 million (December 31, 2009 - $25.3 million) was held in Thailand, $12.1 million (December 31, 2009 - $17.4) was held in Canada, and the remainder in Indonesia. The Company’s treasury policy 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 Q1 2010 capital program through funds generated from operating activities 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 March 31, 2010 was $25.4 million compared to $32.7 million at December 31, 2009. The decrease is attributable to capital expenditures in excess of funds flow from operations. 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 March 31**	
($000s)	**2010**	**2009**
Balance at beginning of period	**32,738**	46,386
Funds flow from operations	**12,336**	15,238
Capital expenditures	**(20,269)**	(13,596)
Non-cash settlement of Andora receivable	**(600)**	-
Foreign exchange impact on working capital	**(373)**	(323)
Net proceeds on share transactions	**1,526**	-
Balance at end of period	**25,358**	47,705

At March 31, 2010, Pan Orient held $6.6 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 in 2008 decreased world oil consumption and resulted in higher inventory levels and reduced prices. From the first quarter of 2009 to the first quarter of 2010 oil prices steadily increased in accordance with rising consumption levels and improving confidence in the world financial situation. The sustainability of the level of crude oil prices at March 31, 2010 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 prior year price environments, 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	**May 19, 2010**	**March 31, 2010**
Common shares	48,594,200	47,414,200
Common shares issuable on conversion of stock options	4,572,166	3,340,666
Total	53,166,366	50,754,866

A total of 1,180,000 options were exercised subsequent to March 31, 2010. Of the options exercised, 900,000 had exercise prices ranging between $0.75 and $2.00 and 280,000 had exercise prices ranging between $2.01 and $4.00.

On April 16, 2010 Pan Orient granted options to purchase 2,411,500 common shares under Pan Orient's stock option plan, of which 2,275,000 were granted to directors and officers. Each option has an exercise price of $7.15 (being the April 15, 2010 closing price of the shares on the TSX Venture Exchange); vests as to 1/3 on the grant date and 1/3 on each of the first and second anniversaries of the grant date and expires on April 16, 2014.

There have been no shares repurchased by the Company subsequent to March 31, 2010.

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:

	2010	**2009**				**2008**		
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Rate at end of period								
Thai baht / CAD $ exchange	**31.42**	31.53	30.69	29.14	27.96	28.43	32.15	32.84
U.S. dollar / CAD $ exchange	**1.016**	1.047	1.072	1.115	1.257	1.223	1.039	1.011

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 March 31 2010	2009
Unrealized foreign exchange (loss) gain	**(164)**	75
Net (loss) gain recorded in AOCI	**(1,113)**	896
	(1,277)	971

Commitments

As at March 31, 2010 the Company's estimated outstanding capital commitments were as follows:

			Estimated Net Financial Commitment	
Country and Concession Name	**Work Program Commitment**	**Obligation Period Ending**	**USD ($000s)**	**CAD ($000s) (1)**
Thailand				
L 44/43	▪ study and training fund	July 2012	18	18
L33/43	▪ drill 2 exploration wells	July 2011	600	612
	▪ geological studies	July 2012	30	31
	▪ study and training fund	July 2012	18	18
L 53/48	▪ drill 4 exploration wells	January 2013	1,300	1,326
	▪ geological studies		80	82
	▪ study and training fund		47	48
Indonesia (2)				
Citarum (3)	▪ 1,250 km 2D seismic ▪ drill 3 exploration wells	October 2010	15,037	15,338
Batu Gajah (3)	▪ 500 km 2D seismic ▪ 400 km 3D seismic ▪ drill 3 exploration wells	January 2011	23,956	24,435
South CPP (3)	▪ 500 km 2D seismic reprocessing ▪ drill one exploration well	November 2011	4,977	5,077
Total			46,063	46,985

(1) Translated at March 31, 2010 exchange rate of US $1 = CAD $1.02.
(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 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 for all three PSCs; the "Obligation Period Ending" for the South CPP PSC is based on the original contract, however, the "Obligation Period Ending" for the Citarum and Batu Gajah PSCs has been extended from the original contact and this extension has been approved by the government.

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.

In January 2010, the Company 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 call 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 six month period. The Company currently is utilizing one drilling rig in Thailand.

Summary of Quarterly Results	2010		2009				2008	
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Production (bbl/d)	**3,816**	3,370	3,648	4,840	6,165	6,982	4,291	3,894
Per Unit information ($/bbl)								
Realized oil price	**72.91**	71.87	68.01	60.01	48.12	56.56	109.54	100.13
Royalties	**(4.68)**	(4.46)	(4.31)	(4.31)	(3.82)	(4.55)	(7.11)	(6.63)
Transportation & operating	**(8.92)**	(9.80)	(8.29)	(6.66)	(4.81)	(4.16)	(4.91)	(5.83)
	59.31	57.61	55.41	49.04	39.50	47.85	97.52	87.67
Financial ($000's) except as indicated								
Oil revenue	**25,038**	**22,280**	22,824	26,432	26,699	36,329	43,241	35,486
Interest revenue	**36**	**26**	12	109	304	424	209	93
Net (loss) income	**3,405**	**6,996**	10,617	(5,349)	2,768	10,813	9,058	8,458
Per share basic ($)	**0.07**	**0.15**	0.23	(0.12)	0.06	0.24	0.20	0.19
Per share diluted ($)	**0.07**	**0.14**	0.22	(0.12)	0.06	0.22	0.19	0.17
Capital expenditures[(1)]	**20,269**	**18,960**	16,033	14,906	13,596	16,598	13,627	6,686
Total assets	**254,964**	**241,781**	227,198	227,898	271,680	259,208	220,521	196,617
Shares outstanding (000s)	**47,414**	**46,313**	46,163	46,168	45,568	45,568	45,650	45,770

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

Quarterly Summary

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. In the fourth quarter of 2009, Pan Orient continued its active drilling program in Thailand 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 for 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.

Q1 2010 – Funds flow from operations for the first quarter was $12.3 million compared with $9.9 million for the fourth quarter of 2009 and $15.2 million for the first quarter of 2009. Net income attributable to common shareholders was $3.4 million for the quarter versus $7.0 million in the fourth quarter of 2009. The decrease in net income attributable to common shareholders is the result of future income tax expense of $4.9 million in Q1 2010 versus a future income tax recovery of $0.7 million in Q4 2009. There was a $2.4 million increase in funds flow from operations compared with the fourth quarter of 2009. The financial results for Pan Orient in the first quarter of 2010 compared to the fourth quarter of 2009 reflect a 13% increase in oil production and a 1% increase in realized crude oil prices. Thailand oil sales for the first quarter of 2010 were 3,816 BOPD compared with 3,370 BOPD for the fourth quarter of 2009. In the first quarter of 2010 Pan Orient drilled two development wells and three exploration / appraisal wells in Concession L44. The five wells drilled (3.0 net) resulted in two new producing horizontal wells at Bo Rang "B" and one new Na Sanun East producing well at NSE-E3. For the first quarter of 2010, Thailand generated $12.4 million in funds flow from operations, compared with $11.1 million for the fourth quarter of 2009 primarily as a result of the 13% increase in oil sales volumes. For the quarter, transportation expenses were $2.52/bbl, operating expenses $6.40/bbl, general and administrative expenses $3.70/bbl and amounts to the Thailand government of $24.31/bbl resulted in after tax funds flow from operations of $36.01/bbl. Operating expenses decreased to $2.2 million or $6.40/bbl in the first quarter from $2.3 million or $7.35/bbl in the fourth quarter of 2009 as a result of higher production levels. General and administrative expenses increased to $1.3 million or $3.70/bbl in the first quarter from $0.7 million or $2.37/bbl in the fourth quarter of 2009 primarily as a result of severance payments. At March 31, 2010, working capital plus deposits was $25.4 million and the Company had no long-term debt.

Accounting Standards

Changes in Accounting Policies

On January 1, 2010, Pan Orient adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

"Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business combinations entered into after January 1, 2010.

"Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on Pan Orient's consolidated financial statements.

"Non-controlling Interests", Section 1602, establishes accounting and reporting standards for the non-controlling (minority) interest in a subsidiary as well as the accounting for (i) a parent's loss of control (deconsolidation) of a subsidiary and (ii) changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. Section 1602 clarifies that a non-controlling interest in a subsidiary is an ownership interest in a consolidated entity that should be reported as equity in the consolidated financial statements. This Section also changes the way the consolidated statements of income (loss) and comprehensive income (loss) are presented by requiring consolidated net income (loss) and comprehensive income (loss) to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. Section 1602 required retrospective adoption of the presentation and disclosure requirements for non-controlling interests. All other requirements of Section 1602 have been applied prospectively.

The above CICA Handbook sections are converged with International Financial Reporting Standards ("IFRS"). Pan Orient will be required to report its results in accordance with IFRS beginning January 1, 2011.

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. Pan Orient expects that Concessions L53, L33, and part of L44 will be classified as exploration and evaluation costs on the transition date. In addition, the Indonesian and Canadian PP&E will also be classified as exploration and evaluation costs.

Development costs include those expenditures for areas or projects where technical feasibility and commercial viability have been determined. Pan Orient expects Concession SW1A and part of Concession L44 to be classified as development costs on the transition date. 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, divestures 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 ("ARO")
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 ("CGU"). 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. It is currently anticipated that Pan Orient's cash-generating units will be at least the concession level.

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.

Additional Information

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