



PAN ORIENT ENERGY CORP.

**2010 MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

April 12, 2011

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

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

Forward-Looking Statements

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

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

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

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

The forward-looking statements contained herein are as of April 12, 2011 and are subject to change after this date. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive and as such undue reliance should not be placed on forward-looking statements. Except as required by applicable securities laws, with the exception of events or circumstances that occurred during the period to which the MD&A relates that are reasonably likely to cause actual results to differ materially from material forward-looking information that was previously disclosed to the public, the Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Non-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 and reclamation costs, 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		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
Cash flow from operating activities	27,626	11,499	53,833	5,807
Add back changes in non-cash working capital	(9,823)	(1,554)	5,181	47,143
Funds flow from operations	17,803	9,945	59,014	52,950

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 Financial and Operating 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 may not be comparable to similar measures presented by other issuers. Funds flow is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP. All references to funds flow throughout this MD&A are based on funds flow from operations before changes in non-cash working capital and reclamation costs.

Petroleum and Natural Gas Properties

The Company's principal properties are divided into three distinct groups: 1) partially developed concessions located on-shore Thailand; 2) undeveloped interests 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 operated working interests in four concessions in Thailand: Concession SW1 (SW1); Concession 44/43 (L44); Concession 33/43 (L33); and Concession 53/48 (L53). Concessions SW1, L44 and L33 are located approximately 240 kilometres north of Bangkok and Concession 53 is located approximately 60 kilometres west of Bangkok. Currently all of Pan Orient's production is crude oil and is sold to a refinery owned by the Thai National Oil Company. Pan Orient is the operator of all four concessions in Thailand, and its working interests, 2010 net production volumes and December 31, 2010 reserves by concession are as follows:

Concession	Working Interest	2010 Average Production		Proved + Probable Reserves at December 31, 2010	
		BOPD	%	Mbbl	%
L44	60%	3,575	92	23,997	75
SW1	60%	161	4	886	3
L33	60%	79	2	5,649	18
L53	100%	69	2	1,403	4
		3,884	100	31,935	100

Significant discoveries at L44 include the Na Sanun East field in 2007, the Bo Rang field in 2009 and the Wichian Buri Extension (WBEXT) field in 2010. This concession is partially developed with an ongoing drilling program which is expected to consist of 34 wells in 2011, including 11 wells in WBEXT and 10 exploration wells.

Concession L33 had its first commercial oil discovery in the third quarter of 2010 with the L33-1 and L33-2 wells which commenced production in November 2010. Drilling plans for this concession in 2011 comprise 4 wells.

Concession L53 had its first commercial oil discovery in the first half of 2010 with the L53-A well which commenced commercial production in August 2010. Three firm wells are planned for 2011 with the possibility of additional wells depending on drilling results.

Indonesia

The Company has working interests in the Batu Gajah production sharing contract (PSC) located onshore south Sumatra, the Citarum PSC located onshore west Java, and the South CPP PSC located onshore south central Sumatra.

Subsequent to December 31, 2010 the Company completed a series of transactions to increase its interests by cancelling a 7% carried interest on the Batu Gajah and South CPP PSCs and repurchasing an 8% carried interest on the Citarum PSC. Total consideration for these transactions was USD \$1.8 million including the issuance of 50,677 shares in Pan Orient at a deemed market value of USD \$0.35 million. Working interests for each of the PSCs as at and subsequent to December 31, 2010 are as follows:

Subsequent to December 31, 2010	Citarum	Batu Gajah	South CPP
Pan Orient Working Interest	77%	97%	97%
Third Party Working Interest	20%	-	-
Third Party Carried Interest	3%	3%	3%
Total	100%	100%	100%

As at December 31, 2010	Citarum	Batu Gajah	South CPP
Pan Orient Working Interest	69%	90%	90%
Third Party Working Interest	20%	-	-
Third Party Carried Interest	11%	10%	10%
Total	100%	100%	100%

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

On the Batu Gajah PSC Tuba Obi Utara-1, the first of three back-to-back exploration wells was spudded in March 2011. The Company expects to commence its Citarum-three well exploration drilling program in the third or fourth quarter of 2011. No drilling is planned on South CPP until 2012.

There were no reserves assigned to any of the Indonesia PSCs at December 31, 2010.

Canada

Through its 53.4% 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.

Summarized financial information with respect to Andora is as follows:

(\$000s)	As at and Year Ended December 31	
	2010	2009
Total assets	58,155	59,440
Total liabilities	6,831	7,786
Funds flow from operations	(534)	(157)
Net loss	(215)	(149)

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.

The oil sands project at Sawn Lake was evaluated by Sproule Associates Ltd. (Sproule) as at December 31, 2010. The contingent resource volumes estimated by Sproule are considered contingent until commercial recovery has been demonstrated, regulatory approvals are obtained and Andora has committed to proceed with commercial development. Contingent resources in Sproule's report are further classified as high, best and low in accordance with the level of certainty. Best case contingent resources assigned were 214.2 million barrels to Andora (114.4 million barrels net to Pan Orient).

In February 2011 Andora initiated a process to identify and consider strategic alternatives to enhance shareholder value.

Financial and Operating Summary

	Three Months Ended December 31,		Year Ended December 31,		Change
<i>(thousands of Canadian dollars except where indicated)</i>	2010	2009	2010	2009	
FINANCIAL					
Oil revenue, before royalties and transportation expense	28,495	22,280	103,019	98,236	5%
Funds flow from operations (Note 1)	17,803	9,945	59,014	52,950	11%
Per share . basic	\$ 0.37	\$ 0.21	\$ 1.22	\$ 1.15	6%
Per share . diluted	\$ 0.36	\$ 0.20	\$ 1.21	\$ 1.10	10%
Funds flow from operations by region (Note 1)					
Canada	(97)	(1,062)	718	(1,716)	-142%
Thailand	17,709	11,063	58,198	54,811	6%
Indonesia	191	(56)	98	(145)	-167%
Total	17,803	9,945	59,014	52,950	11%
Net income attributable to common shareholders	8,495	6,996	20,574	15,145	36%
Per share - basic	\$ 0.17	\$ 0.15	\$ 0.43	\$ 0.33	30%
Per share - diluted	\$ 0.17	\$ 0.14	\$ 0.42	\$ 0.31	34%
Working capital	26,768	28,659	26,768	28,659	-7%
Working capital plus non-current deposits	31,396	32,738	31,396	32,738	-4%
Long-term debt	-	-	-	-	
Capital expenditures (Note 2)	13,638	18,960	61,328	63,495	-3%
Shares outstanding (thousands)	48,741	46,313	48,741	46,313	5%
Funds Flow from Operations per Barrel (Note 1)					
Canada operations	\$ (0.26)	\$ (3.42)	\$ 0.51	\$ (1.04)	-149%
Thailand operations	47.46	35.69	41.05	33.40	23%
Indonesia operations . G&A expense	0.51	(0.18)	0.07	(0.09)	-174%
	\$ 47.71	\$ 32.09	\$ 41.63	\$ 32.27	29%
Capital Expenditures (Note 2)					
Canada	268	567	863	917	-6%
Thailand	11,746	16,351	43,441	51,996	-16%
Indonesia	1,624	2,042	17,024	10,582	61%
Total	13,638	18,960	61,328	63,495	-3%
Working Capital and Non-current Deposits					
Working capital & non-current deposits - beginning of period	27,746	39,830	32,738	46,386	-29%
Funds flow from operations (Note 1)	17,803	9,945	59,014	52,950	11%
Capital expenditures (Note 2)	(13,638)	(18,960)	(61,328)	(63,495)	-3%
Non-cash settlement of Andora receivable	-	-	(600)	-	
Foreign exchange impact on working capital	(847)	1,338	(2,097)	(4,214)	-50%
Net proceeds on share transactions	332	585	3,669	1,111	230%
Working capital & non-current deposits - end of period	31,396	32,738	31,396	32,738	-4%
Canada Operations					
Interest income	21	12	50	43	16%
General and administrative recovery (expense)	38	(359)	708	(1,450)	-149%
Realized foreign exchange (loss)	(212)	(692)	(39)	(247)	-84%
Foreign new ventures expenditures	57	(23)	-	(62)	-100%
Funds flow from operations (Note 1)	(97)	(1,062)	718	(1,716)	-142%
Funds flow from operations per barrel (Note 1)					
Interest income	\$ 0.06	\$ 0.04	\$ 0.04	\$ 0.03	34%
General and administrative recovery (expense)	0.10	(1.16)	0.50	(0.88)	-156%
Realized foreign exchange (loss)	(0.57)	(2.23)	(0.03)	(0.15)	-82%
Foreign new ventures expenditures	0.15	(0.07)	-	(0.04)	-100%
	\$ (0.26)	\$ (3.43)	\$ 0.51	\$ (1.04)	-148%
Indonesia Operations					
General and administrative recovery (expense)	191	(56)	98	(145)	-167%

	Three Months Ended December 31,		Year Ended December 31,		Change
	2010	2009	2010	2009	
<i>(thousands of Canadian dollars except where indicated)</i>					
THAILAND OPERATIONS					
Total oil revenue (bbls)	373,147	310,006	1,417,750	1,640,894	-14%
Average daily oil sales by concession (BOPD)					
L44	3,572	3,183	3,575	4,264	-16%
SW1	124	187	161	232	-30%
L33	272	-	69	-	
L53	88	-	79	-	
Total	4,056	3,370	3,884	4,496	-14%
Average oil sales price, before transportation (CDN\$/bbl)	\$ 76.36	\$ 71.87	\$ 72.66	\$ 59.87	21%
Reference Price (volume weighted) and differential					
Crude oil (WTI \$US/bbl)	\$ 84.70	\$ 75.97	\$ 79.36	\$ 58.56	36%
Exchange Rate \$US/\$Cdn	1.01	1.07	1.04	1.16	-10%
Crude oil (WTI \$Cdn/bbl)	\$ 85.83	\$ 81.42	\$ 82.17	\$ 67.72	21%
Sales price / WTI reference price	89%	88%	88%	88%	0%
Funds flow from operations (Note 1)					
Crude oil sales	28,495	22,280	103,019	98,236	5%
Government royalty	(1,826)	(1,344)	(6,498)	(6,729)	-3%
Other royalty	(37)	(37)	(110)	(114)	-4%
Transportation expense	(1,017)	(761)	(3,653)	(3,866)	-6%
Operating expense	(2,886)	(2,278)	(9,535)	(7,555)	26%
Field netback	22,729	17,860	83,224	79,972	4%
General and administrative expense	(974)	(735)	(4,345)	(3,394)	28%
Interest income	11	14	68	407	-83%
Special Remuneratory Benefit (SRB)	(1,549)	(1,868)	(6,413)	(6,751)	-5%
Current income tax	(2,508)	(4,208)	(14,336)	(15,423)	-7%
Funds flow from operations	17,709	11,063	58,198	54,811	6%
Funds flow from operations per barrel (CDN\$/bbl) (Note 1)					
Crude oil sales	\$ 76.36	\$ 71.87	\$ 72.66	\$ 59.87	21%
Government royalty	(4.89)	(4.34)	(4.58)	(4.10)	12%
Other royalty	(0.10)	(0.12)	(0.08)	(0.07)	11%
Transportation expense	(2.73)	(2.45)	(2.58)	(2.36)	9%
Operating expense	(7.73)	(7.35)	(6.73)	(4.60)	46%
Field Netback	60.91	57.62	58.70	48.74	20%
General and administrative expense	(2.61)	(2.37)	(3.06)	(2.07)	48%
Interest Income	0.03	0.05	0.05	0.25	-81%
Special Remuneratory Benefit (SRB)	(4.15)	(6.03)	(4.52)	(4.11)	10%
Current income tax	(6.72)	(13.57)	(10.11)	(9.40)	8%
Thailand - Funds flow from operations	\$ 47.46	\$ 35.69	\$ 41.05	\$ 33.40	23%
Government royalty as percentage of crude oil sales	6.4%	6.0%	6.3%	6.8%	-0.5%
SRB as percentage of crude oil sales	5.4%	8.4%	6.2%	6.9%	-0.6%
Income tax as percentage of crude oil sales	8.8%	18.9%	13.9%	15.7%	-1.8%
As percentage of crude oil sales					
Expenses - transportation, operating, G&A and other	17.2%	17.1%	17.1%	15.2%	2%
Government royalty, SRB and income tax	20.6%	33.3%	26.4%	29.4%	-3%
Funds flow from operations, before interest income and realized foreign exchange	62.1%	49.6%	56.4%	55.4%	1%
Wells drilled					
Gross	6	6	25	24	4%
Net	4.0	4.4	15.4	15.2	1%

(thousands of Canadian dollars except where indicated)

Year Ended December 31,		
2010	2009	Change

RESERVES AND CONTINGENT RESOURCES

<u>Onshore Thailand</u>			
Onshore Thailand (reserves assigned to Concessions L44/43, L33/43 and SW1 where Pan Orient is operator with a 60% interest, and Concession L53/48 where Pan Orient is operator with a 100% interest) (Note 3)			
Proved oil reserves (thousands of barrels)	7,363	9,525	-23%
Proved plus probable oil reserves (thousands of barrels)	31,935	36,684	-13%
Net present value of proved + probable reserves, after tax discounted at 10%	509,000	459,000	11%
Per Pan Orient share . basic (using year-end shares outstanding) (Note 6)	\$ 10.44	\$ 9.91	5%
Per Pan Orient share . basic (after March 2011 financing) (Note 7)	\$ 9.00		
Net present value of proved + probable reserves, after tax discounted at 15%	413,000	362,000	14%
Per Pan Orient share . basic (using year-end shares outstanding) (Note 6)	\$ 8.47	\$ 7.82	8%
Per Pan Orient share . basic (after March 2011 financing) (Note 7)	\$ 7.30		
<u>Canada (share of the oil sands leases of Andora Energy at Sawm Lake, Alberta)</u>			
Contingent oil resources . Best Estimate %C+(thousands of barrels) (Note 4)	103,900	-	
Probable oil reserves (thousands of barrels) (Note 5)	-	70,121	
Net Present value of probable reserves, before tax discounted at 10%	222,000	745,864	-70%
Per Pan Orient share . basic (using year-end shares outstanding) (Note 6)	\$ 4.55	\$ 16.10	-72%
Per Pan Orient share . basic (after March 2011 financing) (Note 7)	\$ 3.93		
Net present value of probable reserves, before tax discounted at 15%	45,000	529,872	-92%
Per Pan Orient share . basic (using year-end shares outstanding) (Note 6)	\$ 0.92	\$ 11.44	-92%
Per Pan Orient share . basic (after March 2011 financing) (Note 7)	\$ 0.80		

INTERNATIONAL INTERESTS

<i>All amounts reflect Pan Orient's interest</i>	Status	Net Square Kilometers	December 31, 2010 Financial Commitments (CDN thousands)	2010 Avg Production (BOPD)	P+P Reserves (Mstb)
<u>Onshore Thailand (December 31, 2010) Concessions</u>					
SW1A (60% working interest & operator)	Developed	9	-	-	886
L44/43 (60% working interest & operator)	Partially developed	545	\$ 18	to July 2012	23,997
L33/43 (60% working interest & operator)	Partially developed	557	\$ 48	to July 2012	5,649
L53/48 (100% working interest & operator)	Partially developed	1,961	\$ 1,063	to January 2013	1,403
<u>Indonesia (Interests as at March 31, 2011) Production Sharing Contracts</u>					
Citarum PSC, West Java (77% working interest & operator) (Note 8, 9 & 10)	Undeveloped	2,216	\$ 12,853	to October 2011	-
Batu Gajah PSC, South Sumatra (97% working interest & operator) (Note 8, 9 & 10)	Undeveloped	2,447	\$ 22,392	to January 2012	-
South CPP PSC, Central Sumatra (97% working interest & operator) (Note 8 & 9)	Undeveloped	4,339	\$ 5,514	to November 2011	-

Notes:

- (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 MD&A 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) Thailand reserves as at December 31, 2010 and December 31, 2009 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) for the December 31, 2010 evaluation is \$88.40 for 2011, \$89.14 for 2012, \$88.77 for 2013, \$88.88 for 2014, \$90.22 for 2015, \$91.57 for 2016, and prices increase at 1.5% per year thereafter. The engineered values disclosed may not represent fair market value.
- (4) Pan Orient's 53.4% share as at December 31, 2010 of the reserves of Andora Energy Corporation, a private company as evaluated by Sproule Associates Ltd. assessed at forecast crude oil reference prices and costs. The reference price for crude oil per barrel (Western Canada Select WCS 20.5 API adjusted for quality and transportation in Canadian dollars) is \$63.64 for 2012, \$60.57 for 2013, \$57.91 for 2014 and prices increasing to \$83.92 in 2020. Future capital expenditures are estimated at \$1,170 million. The engineered values disclosed may not represent fair market value.
- (5) Pan Orient's 53.2% share as at December 31, 2009 of the reserves of Andora Energy Corporation, a private company 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. Future capital expenditures estimated at \$910 million. The engineered values disclosed may not represent fair market value.
- (6) Year-end per share values calculated based on 48,740,866 Pan Orient Shares outstanding at December 31, 2010 and 46,313,366 Pan Orient Shares outstanding at December 31, 2009.
- (7) Per share values after equity financing in March 2011 calculated based on 56,543,807 Pan Orient Shares outstanding.
- (8) Interests in Indonesia at March 31, 2011 include the repurchase of carried interests in each of the Indonesian PSCs in the first quarter of 2011. Carried interests repurchased were 8% at Citarum PSC, 7% at Batu Gajah PSC and 7% at South CPP PSC.
- (9) Share of commitments reflects amounts to be paid by Pan Orient, including partners' carried interest 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.
- (10) Indonesia financial commitments as provided above represent the work program required under the initial 3-year exploration period of the PSC. With respect to Citarum and Batu Gajah, extension of this initial exploration period has been successfully negotiated with the Government of Indonesia (GOI) to the dates indicated above. If Pan Orient exercises its options to continue beyond the exploration period, additional commitments will be determined on a year-by-year basis through submission of a work program and approval from the GOI. Although extension of the exploration period is a departure from the original contract, it is considered standard practice in Indonesia. 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.
- (11) Totals may not add due to rounding.

Overall Performance

2010 Highlights

- Funds flow from operations of \$59.0 million (\$1.22 per share) and net income attributable to common shareholders of \$20.6 million (\$0.43 per share) for 2010.
- Total 2010 capital programs in Thailand, Indonesia and Canada of \$61.3 million were financed 96% by after tax funds flow from operations and 4% from working capital.
- Capital expenditures were \$43.4 million in Thailand, \$17.0 million in Indonesia and \$0.9 million in Canada.
- Average 2010 oil sales in Thailand of 3,884 BOPD with 4,056 BOPD for the fourth quarter of 2010.
- Strong generation of after tax funds flow from Thailand operations with \$17.7 million for the fourth quarter of 2010 (\$47.46 per barrel) and \$58.2 million for 2010 (\$41.05 per barrel).
- Drilling of 25 exploration and appraisal wells in Thailand during 2010 with 10 wells at the Wichian Buri Extension Field (WBEXT+), five wells at Bo Rang, seven wells at Na Sanun East, two wells at Concession L33, and one well at Concession L53.
 - Discovery of the WBEXT field in Concession L44 (Pan Orient operator and 60% ownership) resulted in a new 12.45 square kilometer production license, 382,051 barrels of oil sales in the second half of 2010, and 8.2 million barrels of proven plus probable reserves were assigned at year-end.
 - Drilling of two exploration wells in Concession L33 (Pan Orient operator and 60% ownership) resulted in the first discovery of hydrocarbons at commercial rates in Concession L33, a new 11.94 square kilometer production license, oil sales of 25,039 barrels commencing in November 2010, and 2.8 million barrels of proven plus probable reserves were assigned at year-end.
 - At Concession L53 (Pan Orient operator and 100% ownership) a production license of 2 square kilometers was granted to Pan Orient, first oil sales from Concession L53 commenced in August 2010, and 1.4 million barrels of proven plus probable reserves were assigned at year-end.
- Thailand proved plus probable reserves of 31.9 million barrels at December 31, 2010 with 12.4 million barrels of new oil field discoveries in 2010 offset by a 15.7 million barrel downward revision of previously assigned reserves mainly at the Na Sanun Central and NSE-F1 fields in Concession L44/43. The net present value of proved and probable reserves after tax (using forecast prices and discounted at 10%) of Cdn\$509 million, representing \$9.00 per Pan Orient share based on the current 56.5 million Pan Orient shares outstanding.
- At December 31, 2010 Pan Orient had \$31.4 million of working capital and long-term deposits, and no long-term debt.
- Subsequent to the year end, Pan Orient closed a bought deal financing on March 8, 2011 with the issuance of 7,557,264 shares at a price of \$6.55 per share for proceeds of \$46.7 million net of expenses.

Operating Results

- Total 2010 capital programs in Thailand, Indonesia and Canada of \$61.3 million were financed 96% by the \$59.0 million in after tax funds flow from operations and 4% from working capital. Capital expenditures were \$43.4 million in Thailand, \$17.0 million in Indonesia and \$0.9 million in Canada.
- Active 2010 drilling program in Thailand with the drilling of 25 wells (15.4 net wells) focused on exploration and appraisal wells to add new reserves and new development drilling opportunities for 2011. Six wells (4.0 net) were drilled in the fourth quarter of 2010, with five appraisal or exploration wells at the WBEXT field in Concession L44, and the L53-C well in Concession L53 (which spudded on December 30, 2010). Total capital expenditures in Thailand were \$11.7 million in the fourth quarter of 2010 and a total of \$43.4 million in 2010.
- Pan Orient drilled 22 wells in Concession L44 (Pan Orient operator and 60% ownership) during 2010 resulting in 12 producing wells and 5 wells which are waiting for workovers or sidetracking operations to evaluate different potential reservoirs.
 - The WBEXT field was discovered in the third quarter of 2010 and a total of 10 exploration or appraisal wells were drilling during the year with capital expenditures for drilling of \$14.7 million, and resulted in 382,051 barrels of oil sales. A production license of 12.45 square kilometers was granted for the portion of the field in Concession L44 by the Thailand Department of Mineral Fuels in February 2011. Proved and probable oil reserves assigned at December 31, 2010 were 8.2 million barrels from volcanic and sandstone reservoirs (with 5.3 million barrels assigned to reserves in Concession L44 and 2.9 million barrels assigned to reserves in Concession L33).

- Five wells were drilled at the Bo Rang fields during the first half of 2010 with capital expenditures for drilling of \$5.8 million to further appraise and develop this field which was discovered in 2009. Oil sales in 2010 from the four producing wells resulting from this drilling program were 226,504 barrels.
- Seven wells were drilled at Na Sanun East in the Central and NSE-F1 fields during the first half of 2010 to continue appraisal of these fields and to evaluate further exploration potential. The program resulted in three producing wells, the NSE-G3 well which will be sidetracked to test a deeper volcanic objective, the NSE-F4 well which is being evaluated for a potential workover, and two wells not capable of production. Capital expenditures related to this drilling program were \$10.7 million and oil sales in 2010 were 69,952 barrels.
- The two exploration wells drilled in Concession L33 (Pan Orient operator and 60% ownership) during the third quarter of 2010 resulted in the first discovery of hydrocarbons at commercial rates in Concession L33. Oil sales commenced in November 2010 with a production license of 11.94 square kilometers for the L33 field being granted by the Thailand Department of Mineral Fuels. Total capital expenditures during 2010 for drilling were \$1.9 million and resulted in 25,039 barrels of oil sales and proved and probable oil reserves assigned at December 31, 2010 of 2.8 million barrels.
- Production in Concession L53 (100% ownership by Pan Orient) commenced in August 2010 with the L53-A well being placed back on-stream after Pan Orient received formal approval by the Thailand Department of Mineral Fuels for the 2.0 square kilometers L53-A Production License around the L53-A exploration well. Oil sales were 28,676 barrels in 2010, with 8,097 barrels (88 BOPD) in the fourth quarter of 2010. This new core area of operations west of Bangkok began production during 2010 and revenue from oil sales was used to fund the start-up of operations. This area has active operations in 2011 with a workover of the L53-A well to produce from additional sandstone zones, and drilling of new wells at L53-C (spudded December 30, 2010), L53-B and L53-A1. Proved and probable oil reserves assigned at December 31, 2010 were 1.4 million barrels from sandstone reservoirs.
- The independent reserves evaluation conducted by Gaffney, Cline & Associates (Consultants) Pte. Ltd. of Singapore (%Gaffney Cline+) for the Thailand assets at December 31, 2010 assigned proved plus probable reserves of 31.9 million barrels at December 31, 2010, a 13% decrease from 36.7 million barrels at December 31, 2009. Proved plus probable reserves at December 31, 2010 include 12.4 million barrels of new oil field discoveries in 2010 at the Wichian Buri Extension field (%WBEXT+) in Concessions L44/43 & L33/43, the L33 field in Concession L33/43, and the L53A field in Concession L53/48 offset by a 15.7 million barrel downward revision of previously assigned reserves mainly at the Na Sanun Central and NSE-F1 fields in Concession L44/43. This downward revision was the result of lower than expected production performance related mainly to a higher than initially estimated oil / water contact throughout the Na Sanun East Central and NSE-F1 fields and a natural gas cap in the eastern portion of the NSE-F1 field. The expectation of a downward revision at Na Sanun East Central and NSE-F1 fields was discussed as part of the 2010 second quarter report in August 2010 and again with the 2010 third quarter report results in November 2010.

The net present value of proved and probable reserves after tax for the four concessions in Thailand, using forecast prices and discounted at 10%, is Cdn\$509 million, an increase of 11% over the prior year and representing \$9.00 per Pan Orient share, based on the current 56.5 million Pan Orient shares outstanding.

- Average Thailand oil sales in 2010 were 3,884 BOPD and 4,056 BOPD for the fourth quarter of 2010. Pan Orient continued to experience significant fluctuations in production levels in 2010 from volcanic reservoirs which can be initially very prolific before they achieve a stabilized production level and water cut.

Oil sales averaged 2,246 BOPD in the first quarter of 2011 reflecting the temporary shut-in of WBEXT-1, WBEXT-1A and WBEXT-1B wells starting in December 2010 at the expiry of their respective 90 day production test periods, and reduced oil production of the WBEXT-1C well as a result of water incursion as outlined in the press releases of January 6th and February 9th, 2011. The WBEXT production license was granted on February 24, 2011 and the three temporarily shut-in wells were brought on-stream at reduced rates to minimize the water cut.

- The oil sands project at Sawn Lake, Alberta operated by Andora Energy Corporation (which is owned 53.4% by Pan Orient) as at December 31, 2010 was evaluated by Sproule Associates Ltd. (%Sproule+). The contingent resource volumes estimated in the Sproule report are considered contingent until such time as commercial recovery has been demonstrated, regulatory approvals have been obtained and the company has committed to proceed with commercial development. Contingent Resources are further classified as "High", %Best+and %Low+in accordance with the level of certainty.

The report assigned Sawn Lake %Best Case+contingent resources of 114.4 million barrels attributed to the 53.4% ownership interest of Pan Orient in Andora. The net present value of the %Best Case+(discounted at 10% before income tax using forecast prices) attributed to Sawn Lake contingent resources is \$222 million to the 53.4% ownership interest of Pan Orient in Andora. The net present value of the %Best Case+(discounted at 10% after income tax using forecast prices) attributed to Sawn Lake contingent resources is \$136 million to the 53.4% ownership interest of Pan Orient in Andora.

- Capital expenditures in Indonesia were \$1.6 million for the fourth quarter and a total of \$17.0 million for 2010.

At the Batu Gajah PSC in 2010 (onshore Sumatra - POE 97% working interest and operator) there was completion of the 500 line kilometre 2D seismic program, the associated seismic data processing and mapping, permitting and initial field work related to the 2011 three well exploration program. The Tuba Obi Utara-1 well started drilling in March 2011 and will be followed immediately by the SE Tiung-1 and Betano-1 wells. Capital expenditures in 2010 related to the Batu Gajah PSC were \$8.3 million.

At the Citarum PSC in 2010 (onshore Java - Pan Orient 77% working interest and operator) there was completion of the 2D seismic program and the associated seismic data processing and mapping. Targets have been selected for a three well exploration program that is scheduled for commencement of drilling late in the third quarter or early in the fourth quarter of 2011. Capital expenditures in 2010 related to the Citarum PSC were \$8.3 million.

Financial Results

- Fourth Quarter of 2010
 - Funds flow from operations for the fourth quarter was \$17.8 million compared with \$15.4 million for the third quarter of 2010 and \$9.9 million for the fourth quarter of 2009. Funds flow from operations per share (basic) was \$0.37 for the fourth quarter of 2010.
 - For the fourth quarter of 2010, Thailand generated \$17.7 million in funds flow from operations, compared with \$15.4 million the third quarter of 2010 primarily as a result of a 9% increase in the realized price for crude oil partially offset by a 5% decrease in oil sales volumes. For the quarter, transportation expenses were \$2.73 per barrel, operating expenses and other royalty \$7.83 per barrel, general and administrative expenses \$2.61 per barrel and amounts to the Thailand government of \$15.76 per barrel resulted in after tax funds flow from operations per barrel of \$47.46. The WTI reference price for crude oil per barrel increased 8% during the quarter to CDN\$85.83 from CDN\$79.69 in the third quarter of 2010, as the 10% increase in the United States dollar WTI reference price was reduced through the rise in the Canadian dollar. Operating expenses increased to \$2.9 million or \$7.73 per barrel in the fourth quarter from \$2.5 million or \$6.46 per barrel in the third quarter of 2010 as a result of additional year-end personnel expenses and engineering fees. For the fourth quarter of 2010, Thailand crude oil revenue was allocated 17% to expenses for transportation, operating, and general & administrative, 21% to the government of Thailand in the form of royalties, Special Remuneratory Benefit (%SRB+) and Income Tax, and 62% to Pan Orient.
 - Net income attributable to common shareholders of \$8.5 million, or \$0.17 per share (basic), for the fourth quarter of 2010 compared with net income attributable to common shareholders of \$4.7 million, or \$0.10 per share (basic), for the third quarter of 2010.
- Year Ended December 31, 2010
 - Funds flow from operations for 2010 was \$59.0 million compared with \$53.0 million for 2009, representing funds flow from operations per share (basic) of \$1.22 compared with \$1.15 for the prior year. The \$6.0 million increase in funds flow from operations from the prior year is primarily due to a \$3.4 million increase in funds flow from Thailand operations and a \$2.4 million increase in funds flow from Canada.
 - Thailand operations in 2010 generated \$58.2 million in funds flow from operations after tax, or \$41.05 per barrel in 2010 compared with \$54.8 million or \$33.40 per barrel in 2009. The Thailand operations in 2010 experienced a 21% increase in the realized crude oil price and a 14% decrease in oil sales volumes. For 2010, transportation expenses were \$2.58 per barrel, operating expenses and other royalty of \$6.81 per barrel, general and administrative expenses \$3.06 per barrel and amounts to the Thailand government of \$19.21 per barrel resulted in after tax funds flow from operations per barrel of \$41.05. Operating expenses increased to \$9.5 million or \$6.73 per barrel in 2010 from \$7.6 million or \$4.60 per barrel in 2009 due to the increased number of wells, expenses for maintenance and water hauling, start-up expenses for Concession L53 and a lower production level. For 2010, Thailand crude oil revenue was allocated 17% to expenses for other royalties, transportation, operating, and general & administrative, 27% to the government of Thailand in the form of royalties, SRB and income tax, and 56% to Pan Orient (before interest income and realized foreign exchange gain).
 - Funds flow from Canada was \$0.7 million in 2010 compared with a funds flow of negative \$1.7 million in 2009. There was a net recovery of \$0.7 million of general and administrative expenses for Canada in 2010 compared with \$1.7 million of net expenses in 2009.
 - Net income attributable to common shareholders for 2010 was \$20.6 million or \$0.43 per share (basic) compared with \$15.1 million or \$0.33 per share (basic) for 2009.

- Pan Orient continues to maintain its financial strength and flexibility. At December 31, 2010 Pan Orient had \$31.4 million of working capital and long-term deposits, and no long-term debt. In 2010 Pan Orient had internally generated funds flow from operations of \$59.0 million, funding 96% of the \$61.3 million of capital expenditures in Thailand, Indonesia and Canada. In addition, at December 31, 2010 Pan Orient had \$8.7 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

Revenue of \$103.0 million for the year ended December 31, 2010 represented a 5% increase over \$98.2 million reported for the year ended December 31, 2009. Fourth quarter revenue in 2010 was \$28.5 million compared to \$22.3 million in the fourth quarter of 2009 and \$27.1 million in the third quarter of 2010. Revenue growth is attributable to a higher realized price for the Company's oil sales, offset by lower production.

For the twelve months ended December 31, 2010 oil sales volumes were 3,384 BOPD (2009 - 4,496 BOPD). In the fourth quarter of 2010 production was 4,056 BOPD, compared to 3,370 BOPD in the fourth quarter of 2009 and 4,211 BOPD in the third quarter of 2010. In general, oil production throughout 2010 was impacted by the Company's focus on exploration and appraisal drilling as opposed to development drilling, the variability in production associated with volcanic reservoirs, and the significance of key wells. Average daily oil production for 2010 was lower than expected due to less than expected production at the Na Sanun East Central and NSE-F1 fields, production declines resulting from increased water incursion and wells temporarily shut-in awaiting production licenses. Average oil production in the fourth quarter of 2010, and the 2010 exit oil production rate were lower than forecast due limited oil production from wells drilled in the fourth quarter, delays in testing, and the lack of success in exploration wells targeting the unproven WBV3 reservoir.

The following specific events also affected 2010 production volumes:

- production from new Bo Rang wells drilled in fourth quarter of 2009 and the first quarter of 2010 (first quarter);
- commencement of production from the WBEXT field on 90-day production tests (third quarter);
- commencement of production from L53 in August (third quarter);
- commencement of production from L33 in November (fourth quarter); and
- significant increase in the water cut from WBEXT wells (fourth quarter).

Production for the first quarter of 2011 was 2,246 BOPD. The production license for the WBEXT field was granted on February 24, 2011 and the WBEXT wells are being brought back on-stream at reduced rates in order to monitor the water cut.

The Company's realized price for its crude oil production was \$76.36/bbl and \$72.66/bbl respectively for the three and twelve months ended December 31, 2010. These prices represent an increase of 6% and 21% over the comparable three and twelve month periods in 2009. WTI in December 2010 was USD \$89.15/bbl recovering from USD \$79.36/bbl on December 31, 2009, and averaged USD \$79.36/bbl in 2010 compared to USD \$58.58/bbl in 2009. The benefit of higher oil prices was mitigated by the strengthening of the Canadian dollar to near-parity at the end of the year.

Royalties

	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
Government royalty - \$000s	1,826	1,344	6,498	6,729
Other royalty - \$000s	37	37	110	114
Total Royalties - \$000s	1,863	1,381	6,608	6,843
Royalties - \$/bbl	4.99	4.45	4.66	4.17
Royalties - % of revenue	6.5	6.2	6.4	6.7

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

Total royalties and the royalty rate for the fourth quarter of 2010 were higher than in 2009, reflecting elevated oil prices. For the year, reduced average production volumes in 2010 resulted in a lower overall royalty rate.

Production Expenses

(\$000s)	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
Transportation expenses	1,017	761	3,653	3,866
Operating expenses	2,886	2,278	9,535	7,555
Total production expenses	3,903	3,039	13,188	11,421
(\$/bbl)				
Transportation expenses	2.73	2.45	2.58	2.36
Operating expenses	7.73	7.35	6.73	4.60
Total production expenses	10.46	9.80	9.31	6.96

Transportation expenses represent the cost to truck the Company's Thailand oil production to the refinery in Bangkok. The Company is charged a contracted rate based on the number of tankers and trips required; both factors which are driven by production volumes. As a result, costs on a per barrel basis are generally consistent from one period to the next. Oil trucked from L53 (which commenced production in August 2010) benefits from a lower contracted rate with its proximity to the Bangkok refinery compared to the other three concessions.

Operating expenses in the fourth quarter of 2010 were \$2.9 million or \$7.73/bbl. Fourth quarter expenses experienced a considerable increase with increased water hauling and repair expenses combined with a reduction in production volumes. Total operating expenses for the fourth quarter of 2010 were higher than the third quarter of 2010 and the comparable period of 2009.

Operations at Concession L53, specifically the substantial start-up expenses allocated over low production volumes, significantly affected the amounts reported for the fourth quarter of 2010 and year-to-date 2010. Operating expenses for this concession were \$0.4 million in total for the quarter and \$1.4 million year-to-date. These expenses reflected trucking of oil and water produced during the 90-day production test period to the Company's central facilities at Wichian Buri, the high water cut of the L53-A well in 2009, and typical start-up expenses.

Depletion, Depreciation and Accretion

	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
Depletion, depreciation and accretion . \$000s	7,273	2,897	19,242	16,680
Depletion, depreciation and accretion . \$/bbl	19.49	9.34	13.57	10.16

Depletion, depreciation and accretion (%D&A+) expense for the three months and year ended December 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.

The overall increase in depletion for the three months and year ended December 31, 2010 reflects the increased depletable base with, for the first time, the inclusion of costs from all four of the Company's concessions. Costs subject to depletion included \$33.0 million (2009 - \$26.3 million) of estimated future development costs for proved reserves and excluded \$12.1 million (2009 - \$20.2 million) with respect to the Thailand full cost pool, representing costs related to inventory and seismic.

Taxes

(\$000s)	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
Special remuneratory benefit	1,549	1,868	6,413	6,751
Current tax	2,508	4,208	14,336	15,423
Total current tax expense	4,057	6,076	20,749	22,174
Future tax expense (recovery)	712	(658)	12,350	12,686
Total tax expense	4,769	5,418	33,099	34,860

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. In 2010 the Company only paid SRB on L44 and the SRB rate applicable to petroleum profits from this concession (after deduction of capital expenditures) was 17% for the twelve months ended December 31, 2010 compared with 21% for 2009. For oil sales at SW1, L33 and L53 in 2010 there were SRB loss carry forward deductions to shelter SRB taxes.

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 in 2010 were affected by higher deductions for capital expenditures in Concession L44 with 98% of 2010 capital additions deducted in 2010 compared to 90% in 2009.

Because of the deductions allowed for capital spent, the effective rates of these taxes can vary significantly from the actual tax rates. For the year ended December 31, 2010 SRB was 6.2% (2009 . 6.9%) of total revenue and income tax was 13.9% (2009 . 15.7%) of total revenue. For the fourth quarter of 2010, SRB was 5.4% (2009 . 8.4%) of total revenue and income tax was 8.8% (2009 . 18.9%) of total revenue.

Taxes payable of \$12.5 million at December 31, 2010 represents SRB for the year and income tax for the six months ended December 31, 2010.

General and Administrative (G&A) Expenses

	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
G&A, net of overhead recoveries - \$000s	2,418	1,774	6,885	7,599
Capitalized G&A	(811)	(624)	(3,346)	(2,610)
G&A, net - \$000s	742	1,150	3,539	4,989
G&A . \$/bbl	1.99	3.71	2.50	3.04

G&A expenses as reported are net of overhead recoveries and G&A expenses allocated to capital projects. Overhead recoveries represent the portion of Pan Orient's G&A expenses charged to working interest partners with respect to the Company's operated properties.

For the year ended December 31, 2010 G&A net of overhead recoveries for Indonesia was relatively static compared to 2009. Affecting Thailand and Canada were several non-recurring items including recoveries from third parties of approximately \$0.7 million related to stock options exercised by Thailand personnel, severance payments and other non-routine expenses associated with the reduction of expatriate personnel in Thailand.

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

Capital Invested ⁽¹⁾

(\$000s)	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
Thailand	11,746	16,351	43,441	51,996
Indonesia	1,624	2,042	17,024	10,582
Canada	268	567	863	917
Total capital expenditures	13,638	18,960	61,328	63,495

(1) Excluding foreign exchange and asset retirement obligations

Thailand

In 2010 25 wells (15.4 net wells) were drilled, focused on exploration and appraisal wells to add new reserves and new development drilling opportunities for 2011. Six wells (4.0 net) were drilled in the fourth quarter of 2010, with five appraisal or exploration wells at the WBEXT field in Concession L44, and the L53-C well in Concession L53 (which spudded on December 30, 2010).

Pan Orient drilled 22 wells in Concession L44 during 2010 resulting in 12 producing wells and 5 wells which are waiting for workovers or sidetracking operations to evaluate different potential reservoirs. The WBEXT field was discovered in the third quarter of 2010 and a total of 10 exploration or appraisal wells were drilling during the year with capital expenditures for drilling of \$14.7 million. Five wells were drilled at the Bo Rang fields during the first half of 2010 with capital expenditures for drilling of \$5.8 million to further appraise and develop this field which was discovered in 2009. Seven wells were drilled at Na Sanun East in the Central and NSE-F1 fields during the first half of 2010 to continue appraisal of these fields and to evaluate further exploration potential. Capital expenditures related to this drilling program were \$10.7 million.

The two exploration wells drilled in Concession L33 during the third quarter of 2010 resulted in the first discovery of hydrocarbons at commercial rates in Concession L33. Total capital expenditures during 2010 for drilling were \$1.9 million.

On December 30, 2010 L53-C was spudded on Concession L53.

Indonesia

The Company's Batu Gajah and Citarum seismic programs were completed in 2010 totaling \$10.9 million for the year and \$1.0 million in the fourth quarter of 2010. On the Batu Gajah PSC, the Tuba Obi Utara-1 well was spudded in March 2011, and is the first well of a three well back-to-back exploration drilling program. Capital costs related to this drilling program in 2010 totaled \$1.5 million (\$0.6 million in the fourth quarter of 2010).

Liquidity and Capital Resources

Liquidity

At December 31, 2010 Pan Orient's cash and cash equivalents was \$37.1 million compared to \$44.8 million at December 31, 2009 and \$23.7 million at September 30, 2010. At December 31, 2010, \$19.8 million (December 31, 2009 - \$25.3 million) was held in Thailand, \$16.2 million (December 31, 2009 - \$17.4) was held in Canada, and the remaining \$1.1 million (December 31, 2009 - \$2.1 million) in Indonesia. Of the \$19.8 million held in Thailand, \$12.5 million is reserved for payment of the Company's taxes subsequent to year end. Pursuant to the Company's treasury policy excess capital is expatriated from Thailand to Canada where management manages foreign exchange rates and interest rates as well as funding requirements for the Company's Indonesia operations.

Pan Orient's 2010 capital program was financed 96% by funds generated from operating activities and 4% from working capital. The Company's working capital position is forecasted regularly and it plans to fund future capital expenditures and commitments with existing cash balances, equipment inventory, expected cash flows from Thailand operations and funds raised in conjunction with the Company's financing which closed in March 2011, involving the issuance of 7.6 million common shares for gross proceeds of \$49.5 million.

Working capital plus non-current cash deposits at December 31, 2010 was \$31.4 million compared to \$32.7 million at December 31, 2009. The 4% decrease throughout the year is attributable to capital expenditures in excess of funds flow from operations. However, with funds flow from operations exceeding capital expenditures by \$4.2 million in the fourth quarter, working capital plus non-current deposits has increased from September 30, 2010. Specific details with respect to the fluctuations in working capital plus non-current deposits are shown in the Financial and Operating Summary table.

Non-current cash deposits relate to guarantees to the Thailand and Indonesia governments for the Company's work commitments, customs importation permits in Thailand and deposits with Indonesian contractors.

At December 31, 2010, Pan Orient held \$8.7 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 outlook remains substantially unchanged from the third quarter of 2010. Future oil prices will depend on a number of factors relating to the timing and sustainability of a global economic recovery which will be affected by inventory levels and surplus productive capacity. Adding uncertainty to oil and gas supply and demand is the current political unrest in Egypt, Libya and other North African and Middle East countries. Given the Company's present working capital position and ability to generate positive cash flows from Thailand in less favorable 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 can be sustained.

Share Capital

Outstanding at period-end (000s)	April 12, 2011	December 31, 2010
Common shares	56,588	48,741
Stock options	4,170	4,453
Total	60,758	53,194

Pursuant to the Company's bought deal private placement which closed in March 2011 the Company issued 7.6 million shares for total gross proceeds of \$49.5 million (including 0.7 million shares issued upon the Underwriters' exercise of options for \$4.5 million).

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:

Rate at end of period	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Thai baht / CAD \$ exchange	29.80	29.10	30.44	31.42	31.53	30.69	29.14	27.96
U.S. dollar / CAD \$ exchange	1.001	1.034	1.054	1.016	1.047	1.072	1.115	1.257

A fundamental aspect of the Company's treasury function is mitigating the effect of foreign currency exchange fluctuations to the extent possible. Surplus funds are expatriated to Canada to be held in Canadian dollars. An appropriate cushion of Thai baht is held in Thailand to satisfy payments in that currency as they come due, the most significant of which are the Company's SRB and taxes. With the Canadian dollar gaining ground on the US dollar throughout 2010 the Company recorded an unrealized foreign exchange loss on its Indonesian operations and amounts in Thailand and Canada held in US dollars. With the Thai baht appreciating relative to the Canadian dollar in 2010 the Company reported an unrealized gain on the Company's Thailand operations. All unrealized amounts were recorded in accumulated other comprehensive income on the balance sheet.

Translation (losses) gains were allocated as follows:

(\$000s)	Three Months Ended December 31		Year Ended December 31	
	2010	2009	2010	2009
Unrealized foreign exchange (loss)	(18)	(184)	(314)	(10,636)
Net (loss) gain recorded in AOCI	(7,171)	(720)	2,994	(8,186)
	(7,189)	(904)	2,680	(18,822)

Commitments

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

Country and Concession Name	Remaining 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	18
L33/43	▪ geological studies	July 2012	30	30
	▪ study and training fund		18	18
L 53/48	▪ drill 3 exploration wells	January 2013	975	961
	▪ geological studies		55	55
	▪ study and training fund		47	47
Indonesia ⁽²⁾⁽³⁾				
Citarum	▪ drill 3 exploration wells	October 2011	12,846	12,853
Batu Gajah	▪ 400 km ² 3D seismic	January 2012	22,379	22,392
	▪ drill 3 exploration wells			
South CPP	▪ 200 km 2D seismic	November 2011	5,511	5,514
	▪ drill one exploration well			
Total			41,879	41,888

(1) Translated at December 31, 2010 exchange rates.

(2) At December 31, 2010 the Company owned a 90% working interest in the Batu Gajah PSC, a 69% operated working interest in the Citarum PSC, and a 90% operated working interest in the South CPP PSC. 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 at December 31, 2010).

(3) Subsequent to December 31, 2010 the Company owned 97% working interests in the Batu Gajah and South CPP PSCs and a 77% working interest in the Citarum PSC as the carried interests were reduced to 3% for each PSC.

Indonesia financial commitments as provided above represent the work program required under the initial 3-year exploration period of the PSC. With respect to Citarum and Batu Gajah, extension of this initial exploration period has been successfully negotiated with the Government of Indonesia (GOI) to the dates indicated above. If Pan Orient exercises its options to continue beyond the exploration period, additional commitments will be determined on a year-by-year basis through submission of a work program and approval from the GOI.

Although extension of the exploration period is a departure from the original contract, it is considered standard practice in Indonesia. 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, both Citarum and Batu Gajah have complied with these penalty relinquishments. 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 management's estimates of the costs to fulfill the work program requirements in Thailand and Indonesia. Actual expenditures required to carry out these commitments may be significantly different from the estimates. The Company intends to fund commitments through existing cash surplus, expected cash flows from Thailand operations and funds from the 2011 financing.

Selected Annual Information

<i>(thousands of Canadian dollars except where indicated)</i>	Years Ended December 31,		
	2010	2009	2008
FINANCIAL			
Oil revenue before royalties	103,019	98,236	147,554
Average daily oil sales (BOPD)	3,884	4,496	4,947
Average oil sales price (CDN\$/bbl)	\$ 72.66	\$ 59.87	\$ 81.50
Funds flow from operations (Note 1)	59,014	52,950	63,897
Per share . basic	\$ 1.22	\$ 1.15	\$ 1.40
Per share . diluted	\$ 1.21	\$ 1.10	\$ 1.31
Funds flow from operations by region (Note 1)			
Canada	718	(1,716)	2,490
Thailand	58,198	54,811	61,865
Indonesia	98	(145)	(458)
Total	59,014	52,950	63,897
Net income	20,474	15,145	31,751
Per share - basic	\$ 0.43	\$ 0.33	\$ 0.70
Per share - diluted	\$ 0.42	\$ 0.31	\$ 0.65
Total assets	286,151	241,781	259,208
Total non-current liabilities	71,566	66,846	94,661
Working capital	26,768	28,659	42,087
Working capital plus non-current deposits	31,396	32,738	46,386
Long-term debt	-	-	-
Capital expenditures	61,328	63,495	40,491
Weighted average shares outstanding (thousands)			
Basic	48,187	46,008	45,495
Diluted	48,823	48,125	48,927
Shares outstanding (thousands)			
Basic	48,741	46,313	45,568
Diluted	53,194	50,755	50,010

(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

Thailand revenue and funds flow from operations for the most recent three years are reflective of the production volumes and the realized price for the Company's oil. The majority of the funds flow contributed by the Canadian operations is management fees charged to its international subsidiaries according to the various joint operating agreements. Indonesia funds flow represents general and administrative costs for its personnel and office in the country less any amounts allocated to exploration and development. As the Indonesia companies are in the exploration stage the majority of G&A is currently capitalized and a recovery was reported in 2010 due to a prior period adjusting entry. Working capital in the past three years had fluctuated consistently with funds flow from operations less capital expenditures.

Summary of Quarterly Results

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production (BOPD)	4,056	4,211	3,448	3,816	3,370	3,648	4,840	6,165
Per Unit information (\$/bbl)								
Realized oil price	76.36	69.82	71.51	72.91	71.87	68.01	60.01	48.12
Royalties	(4.99)	(4.52)	(4.41)	(4.68)	(4.46)	(4.31)	(4.31)	(3.82)
Transportation & operating	(10.46)	(8.96)	(8.77)	(8.92)	(9.80)	(8.29)	(6.66)	(4.81)
	60.91	56.34	58.33	59.31	57.61	55.41	49.04	39.50
Financial (\$000's) except as indicated								
Oil revenue	28,495	27,050	22,436	25,038	22,280	22,824	26,432	26,699
Interest revenue	32	20	30	36	26	12	109	304
Net income (loss) ⁽¹⁾	8,495	4,727	3,948	3,405	6,996	10,617	(5,349)	2,768
Per share basic (\$)	0.17	0.10	0.08	0.07	0.15	0.23	(0.12)	0.06
Per share diluted (\$)	0.17	0.09	0.08	0.07	0.14	0.22	(0.12)	0.06
Capital expenditures ⁽²⁾	13,638	11,012	16,409	20,269	18,960	16,033	14,906	13,596
Total assets	286,151	275,508	261,635	254,964	241,781	227,198	227,898	271,680
Shares outstanding (000s)	48,741	48,619	48,594	47,414	46,313	46,163	46,168	45,568

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

(2) Excluding asset retirement obligation

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 BOPD 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 BOPD were 1,192 BOPD less than the 4,840 BOPD 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 MMbbl (net) of 2C contingent resource volumes for the Bo Rang %A+ and %B+ and L44W structures and 6.1 MMbbl (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.

Q2 2010 . Funds flow from operations for the second quarter was \$13.5 million compared with \$12.3 million for the first quarter of 2010 and \$16.6 million for the second quarter of 2009. Net income attributable to common shareholders was \$3.9 million for the quarter versus \$3.4 million in the first quarter of 2010. The financial results for Pan Orient in the second quarter of 2010 compared to the first quarter of 2010 reflect a 9% decrease in oil production and a 2% decrease in realized crude oil prices. Thailand oil sales for the second quarter of 2010 were 3,448 BOPD compared with 3,816 BOPD for the first quarter of 2010. For the second quarter of 2010, Thailand generated \$12.8 million in funds flow from operations, compared with \$12.4 million for the first quarter of 2010; the increase was the result of the 10% reduction in oil sales volume being more than offset by a significant reduction in Special Remuneratory Benefit and income tax expenses resulting from the high level of reinvestment into Concession L44 and minimal reinvestment in Concession L53. For the quarter, transportation expenses were \$2.56/bbl, operating expenses \$6.21/bbl, general and administrative expenses \$3.69/bbl and amounts to the Thailand government of \$18.38/bbl resulted in after tax funds flow from operations of \$40.66/bbl. Operating expenses decreased to \$1.9 million or \$6.21/bbl in the second quarter from \$2.2 million or \$6.40/bbl in the first quarter of 2010. Pan Orient drilled seven wells (4.2 net wells) in Thailand during the second quarter of 2010 with three appraisal wells at Bo Rang B, three appraisal wells at the NSE-F1 field to further define fields discovered in 2009, and one NSE development well. The seven wells drilled (4.2 net) resulted in two new producing wells at Bo Rang B, one new producing well at Na Sanun East (NSE-B3), and one new producing well in the NSE-F1 field (NSE-F2). At June 30, 2010, working capital plus deposits was \$24 million and the Company had no long-term debt.

Q3 2010 . Funds flow from operations of \$15.4 million exceeded the previous quarter's funds flow by \$2.0 million and also exceeded capital expenditures for the quarter by \$4.4 million. Third quarter production of 4,211 BOPD was 763 BOPD or 22% higher than the volumes reported in the second quarter. Increased revenue from the additional production volumes was slightly offset by a lower realized sales price and higher operating expenses resulting in a field netback of \$56.34/bbl compared to \$58.33/bbl in the second quarter. Operating expenses per barrel were impacted by significant costs related to Concession L53 and only a small amount production to allocate these costs to. During the quarter the Company had discoveries in the WBEXT field in Concession L44 and the L33-1 / L33-2 Fields in Concession L33. A production license application for the WBEXT field is currently with the Thailand Department of Mineral Fuels, however, under a 90-day production test the new wells in WBEXT contributed 1,729 BOPD for the third quarter. Commercial production of the previous discovery at L53-A commenced upon receipt of the production license in August. Net income of \$4.7 million for the quarter (\$0.8 million higher than second quarter) reflected higher funds flow offset by higher DD&A expense, SRB and future income tax. At September 30, 2010 working capital plus deposits was \$27.7 million, an increase of \$3.7 million over June 30, 2010, and the Company had no long-term debt.

Q4 2010 . The Company reported funds flow from operations of \$17.8 million, an increase of \$2.4 million over the previous quarter and \$7.9 million higher than the fourth quarter of 2009. Compared to the most recent quarter, revenue was \$1.5 million higher as a result of an increase in the realized oil price and current taxes were \$1.4 million lower. The Company's capital program in Thailand had capital expenditures of \$11.7 million and focused on exploration and appraisal drilling in the WBEXT field in Concession L44. In Indonesia, capital expenditures of \$1.6 million related to drilling on Batu Gajah which commenced in March 2011 and capitalized G&A. Funds flow from operations exceeded capital expenditures by \$4.2 million resulting in working capital plus deposits of \$31.5 million, an increase of \$3.8 million over the previous quarter. Net income attributed to common shareholders of \$8.5 million (\$0.17 per share on a diluted basis) was \$3.8 million higher than the third quarter, impacted by higher depletion expense and lower future income tax expense.

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. Therefore, Pan Orient will be required to report its results in accordance with IFRS beginning in 2011. The Company has assembled a team and developed a plan to complete the transition to IFRS by January 1, 2011, including the preparation of 2010 required comparative information.

The Company continues to implement its IFRS project plan and expects qualitative and quantitative impacts on its future financial position and results of operations. The following transition impacts are unaudited and are estimates that may not reflect the actual IFRS adjustment. The following transition impacts also result in an adjustment to the balance in future income tax on transition.

Exploration and Evaluation ("IFRS 6")

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.

Under IFRS, exploration and evaluation (E&E) 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 will initially capitalize these costs as E&E 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 Property, Plant and Equipment (PP&E). Unrecoverable exploration and evaluation costs associated with an area or project will be expensed. The Company has incurred approximately \$0.5 million of costs related to a joint study agreement in Indonesia which will not result in a production sharing contract. The expenditures related to this agreement were written off in the second quarter of 2010 under Canadian GAAP which was also consistent with the treatment under IFRS.

Pan Orient will adopt the First-time Adoption of IFRS (IFRS 1+) exemption which will allow the value of the E&E assets to be consistent with Canadian GAAP historical net book value. On January 1, 2010 the value of the E&E assets is estimated to be approximately \$116 million, primarily consisting of undeveloped properties associated with the following areas:

- Undeveloped portion of Concession L44/43;
- Undeveloped portion of Concession L33/43;
- Undeveloped portion of Concession L53/48;
- Citarum PSC;
- Batu Gajah PSC;
- South CPP PSC; and
- Sawn Lake.

Property, Plant and Equipment ("IAS 16")

Development costs include those expenditures for areas or projects where technical feasibility and commercial viability have been determined. On the transition date, Pan Orient expects Concession SW1A and the developed portion of Concession L44/43 to be classified as development costs and as one cash generating unit (CGU), due to the similarity in geographic proximity, infrastructure and economic commonalities. On January 1, 2010, the value of the development costs is estimated to be approximately \$63 million. It is anticipated that the developed portion of L33/43 and L53/48 will be included as development costs during 2010. Under IFRS, Pan Orient expects to continue to capitalize these costs within PP&E on the balance sheet and the costs will be depleted on a unit-of-production basis over an area level instead of a country cost centre level. It is expected that Pan Orient will deplete oil and natural gas assets using proved plus probable reserves. This has no impact on transition but will result in a lower depletion rate going forward.

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. This has no impact on transition or in 2010.

Impairment of Assets ("IAS 36")

Under Canadian GAAP, Pan Orient may be 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 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 has grouped its assets into CGUs (generally by concession) based on the independence of cash inflows from other assets or other groups of assets. Pan Orient does not expect any impairment to its CGUs on the transition date.

Decommissioning Costs ("IAS 37")

Under Canadian GAAP, Asset Retirement Obligation (ARO) is initially measured as the estimated fair value of the retirement and decommissioning expenditures expected to be incurred. The ARO liability is not re-measured using current discount rates. Under IFRS, ARO will be measured as the best estimate of the expenditure to be incurred and discounted at the risk-free rate. The change in ARO that results from changes in the discount rates will be added to or deducted from petroleum & natural gas properties.

At January 1, 2010, Pan Orient expects an increase of \$3 million to its ARO with an offset to be recorded in retained earnings, as a result of the measurement difference.

Income Taxes ("IAS 12")

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 under 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.

It is the Company's intention to not apply IFRS 2, *Share-Based Payments*, to equity instruments which vested before the Company's date of transition to IFRS, as permitted under IFRS 1.

The interim 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 the date of transition.

Additional Information

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