# PAN ORIENT ENERGY CORP.

**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*August 27, 2009*

### Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared effective August 27, 2009 and should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2009 and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2008. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP).

Pan Orient Energy Corp. ("Pan Orient" or the "Company") is a junior oil and natural gas company based in Calgary, Alberta, with properties in northern Alberta, onshore Thailand and onshore Indonesia.

#### 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 estimated costs associated with work commitments in Thailand and Indonesia. These estimates 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.

The forward-looking statements contained herein are as of August 27, 2009 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-GAPP 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 June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| **($000s)** | **2009** | **2008** | **2009** | **2008** |
| Cash flow from operating activities | **(36,509)** | 25,401 | **(19,571)** | 54,443 |
| Changes in non-cash working capital | **53,086** | (14,454) | **51,387** | (32,883) |
| Funds flow from operations | **16,577** | 10,947 | **31,816** | 21,560 |

Operating netback, operating netback per share, corporate netback and corporate netback per share are not recognized measures under GAAP. Operating netback is calculated as average unit sales price less royalties, transportation costs and operating expenses. Corporate netback includes interest revenue and further deducts administrative expenses cash taxes and realized foreign exchange. Operating netback 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. The calculation of operating netback is presented in “Production and Netbacks”.

The above measures do not have standardized meanings prescribed by Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers.

**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. To date, the Company’s operations have been unaffected by political events in Thailand.

*Thailand*
The Company has interests in four concessions in Thailand; License SW1A (SW1A), License 44/43 (L44), License 33/43 (L33) and License 53/48 (L53). Pan Orient is the operator for all four concessions with a 60% working interest in the first three and a 100% working interest in the fourth. Currently all of the Company’s production is crude oil and is sold to a refinery owned by the Thai National Oil Company. Proved plus probable reserves at December 31, 2008, as evaluated by independent reserve engineers, were 25.0 MMbbl net to Pan Orient.

The SW1A concession is developed, L44 is partially developed and concessions L33 and L53 are undeveloped. The 15 wells drilled in the first half of 2009 have resulted in eight producing oil wells and oil discoveries at NSE-F1, L44-W, NSE-H3 and NSE-I1. Of the 15 wells drilled, the eight producing wells contributed 2,176 (1,305 net) bbls/d to the second quarter production, four wells are currently being tested, and three wells were not capable of production. Planned drilling activity for the remainder of 2009 is dependent on the results for wells currently being tested, but includes additional drilling in L44, the drilling of up to two wells in L33, and initial drilling of two wells in L53.

*Indonesia*
The Company owns a 90% working interest in the Batu Gajah production share 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.

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 acquisition of an initial 750 km 2D seismic program continues with an expected completion date near the end of 2009 to early 2010. Exploration drilling of up to four wells is tentatively scheduled to commence in the second half of 2010 upon the completion of drilling on Batu Gajah. On Batu Gajah, the seismic crew for the acquisition of 500 kilometres of 2D data has been mobilized with survey completion anticipated near the end of 2009. The Company plans to drill up to four exploration wells commencing in the first half of 2010. The Company has no drilling planned on South CPP until 2012.

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.

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

The property is in the pre-production stage and has recently received commercial scheme approval for a steam assisted gravity drainage (SAGD) recovery process from the Energy Resources Conservation Board (ERCB) and the Environmental Protection and Enhancement Act (EPEA). 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 is currently underway with anticipated completion for late 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, 2008, as evaluated by independent reserve engineers, were 131.8 MMbbl net to Andora (70.1 MMbbl net to Pan Orient).

**Production and Corporate Netback**

| | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Oil revenue ($000s) | **26,432** | 35,486 | **53,132** | 67,984 |
| Average daily production (bbls/d) | **4,840** | 3,894 | **5,499** | 4,249 |
| Operating netback ($) | | | | |
| Realized oil price | **60.01** | 100.13 | **53.38** | 87.91 |
| Royalties | **(4.31)** | (6.63) | **(4.03)** | (5.95) |
| Transportation expenses | **(2.42)** | (2.67) | **(2.33)** | (2.54) |
| Operating expenses | **(4.24)** | (3.16) | **(3.30)** | (2.31) |
| Operating netback | **49.04** | 87.67 | **43.72** | 77.11 |
| Interest income | **0.25** | 0.26 | **0.41** | 0.46 |
| General & administrative expenses | **(3.95)** | (3.89) | **(3.28)** | (2.93) |
| Foreign new venture expenditures | **-** | - | **(0.04)** | - |
| Special Remuneratory Benefit | **(3.11)** | (27.09) | **(4.31)** | (27.07) |
| Income tax | **(6.28)** | (23.31) | **(5.07)** | (18.91) |
| Realized foreign exchange | **1.69** | (2.75) | **0.52** | (0.78) |
| Total corporate netback | **37.64** | 30.89 | **31.95** | 27.88 |

Pan Orient's financial results are contingent upon the price received for its crude oil production which is determined by crude 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 successful 2008 and 2009 Na Sanun East development drilling programs have resulted in increased average production volumes of 946 bbl/d and 1,250 bbl/d for the three and six months ended June 30, 2009 over the previous year. Compared with 2008, this production growth was 24% for the second quarter of 2009 and 29% on a year-to-date basis however, revenues declined as a result of lower commodity prices. Oil prices reached all-time record highs in mid-2008 and the Company's realized price for the second quarter of 2009 was $40.12/bbl (40%) lower than the comparable period of 2008.

Beginning in the first half of 2009, Pan Orient's drilling focus has been on exploration and appraisal targets to add oil reserves and new drilling opportunities. The 15 wells drilled in the first half of 2009 have resulted in eight producing wells which contributed 2,176 (1,305 net) bbls/d to the second quarter production, four wells currently being tested, and three wells not capable of production. Volumes reported for the current period are not necessarily indicative of the Company's drilling success in the year as the 2009 exploration and appraisal drilling is more time intensive than the Company's 2008 drilling program. As such, there is a longer delay between drilling activity and production growth. Drilling results during the first six months of 2009 included significant appraisal wells at NSE-E2 and NSE-H1 and new field / pool oil discoveries at NSE-F1, L44-W, NSE-H3, NSE-J1 and NSE-I1.

During the second quarter of 2009, production additions have not been sufficient to replace the production declines from previously drilled wells. 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. This lower production was the result of wells coming off flush production, temporary water handling constraints, natural production declines and reduced production from one key well which had produced an average of 1,117 bbl/d for the first quarter and had average production of 709 bbl/d in the second quarter of 2009.

Although revenues were down over 20% for the three and six months ended June 30, 2009, the Company's netbacks were $6.75/bbl (22%) and $4.07/bbl (15%) higher for the quarter and year-to-date 2009 compared to the respective periods of 2008. This is partially a function of the variable nature of royalties, transportation and a portion of the operating expenses however the majority of this increase is the result of lower SRB and income taxes. In 2009 capital expenditures deductible for SRB and income tax purposes were proportionately higher than funds flow from operations compared to the previous year.

## Royalties

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Royalties - $000s | **1,899** | 2,349 | **4,014** | 4,603 |
| Royalties - $/bbl | **4.31** | 6.63 | **4.03** | 5.95 |
| Royalties - % of revenue | **7.2** | 6.6 | **7.6** | 6.8 |

The Company pays two types of royalties: 1) to the Thai government on all production volumes; and 2) a 10% 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. Higher production volumes in 2009 resulted in a higher royalty rate. Overall 2009 quarterly and year-to-date royalties and royalties per barrel were lower than in the previous year as a result of lower revenues.

**Production Expenses**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| **($000s)** | **2009** | **2008** | **2009** | **2008** |
| Transportation expenses | **1,065** | 945 | **2,318** | 1,963 |
| Operating expenses | **1,866** | 1,121 | **3,281** | 1,789 |
| Total production expenses | **2,931** | 2,066 | **5,599** | 3,752 |
| ***($/bbl)*** | | | | |
| Transportation expenses | **2.42** | 2.67 | **2.33** | 2.54 |
| Operating expenses | **4.24** | 3.16 | **3.30** | 2.31 |
| Total production expenses | **6.66** | 5.83 | **5.63** | 4.85 |

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.

Over 40% of the Company's operating expenses relate to employee and consultant compensation and are substantially fixed. The number of individuals required to operate the Company's properties does not fluctuate with changes in production but more so with the number of wells and the geographical proximity of the wells. Overall and per barrel operating expenses have increased, reflecting the growth in the Company's operations since 2008. The Company currently has the resources to accommodate future production additions and higher 2009 operating expenses per barrel are a function of a slightly higher level of expenses and reduced volumes. Higher expenses are the outcome of incremental production sites, specifically the generator, fuel and repair and maintenance costs associated with these additional locations. In the second quarter the Company also incurred increased costs for water handling and emulsion breaker chemicals used for separating oil and water.

**Depletion, Depreciation and Accretion (DD&A)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Depletion, depreciation and accretion – $000s | **3,543** | 2,955 | **10,302** | 6,042 |
| Depletion, depreciation and accretion – $/bbl | **8.04** | 8.34 | **10.35** | 7.81 |

DD&A expense for the three and six months ended June 30, 2009 consists primarily of depletion of Pan Orient's Thai capital base. As the Company's Canadian and Indonesian assets are in the pre-production phase, depletion is not calculated for these cost centres.

In 2009 total DD&A and DD&A per barrel have increased over 2008 as a result of the increased capital base at June 30, 2009. From the first quarter of 2009, DD&A has decreased by $4.14/bbl (34%) as a higher proportion of capital expenditures were excluded from the full cost pool at June 30, 2009 related to properties for which there has not yet been a determination of associated reserve volumes.

Excluded from the depletable base was $24.5 million related to unproved properties in Thailand and equipment for future exploration and development activities. Costs subject to depletion included $10.3 million of estimated future development costs for proved reserves.

**Taxes**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| **($000s)** | **2009** | **2008** | **2009** | **2008** |
| Special remuneratory benefit (SRB) | **1,371** | 9,601 | **4,291** | 20,936 |
| Current tax | **2,768** | 8,262 | **5,048** | 14,622 |
| Total current tax | **4,139** | 17,863 | **9,339** | 35,558 |
| Future tax expense (reduction) | **6,090** | (483) | **11,533** | 3,148 |
| Total tax expense | **10,229** | 17,380 | **20,872** | 38,706 |

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 for capital spent. The rate is principally determined by 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. The SRB rate applicable to petroleum profits (after deduction of the majority of capital expenditures) was 23% for the second quarter of 2009 and 24% year-to-date.

Income tax is 50% of taxable income which is calculated as funds flow from operations less capital expenditures, SRB and other permitted deductions.

Because of the deductions allowed for capital spent, the effective rates of these taxes can vary significantly from the actual tax rates. For the six months ended June 30, 2009, as a percentage of total revenue, the Company's SRB was 8% (2008 - 31%) and income tax was 10% (2008 - 22%). A higher proportion of deductible capital expenditures relative to earnings has contributed to this decline in SRB and income tax. The effective rate for the remainder of 2009 will be dependent on the level of capital expenditures in the period.

Taxes payable of $9.5 million at June 30, 2009 represents SRB and income tax for the six months ended June 30, 2009.

**General and Administrative (G&A) Expenses**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| G&A, net of overhead recoveries - $000s | **2,595** | 1,411 | **4,920** | 2,445 |
| Capitalized G&A | **(855)** | (33) | **(1,658)** | (182) |
| G&A, net - $000s | **1,740** | 1,378 | **3,262** | 2,263 |
| G&A – $/bbl | **3.95** | 3.89 | **3.28** | 2.93 |

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 expenses allocated to capital projects represent compensation and other costs associated with property acquisition, exploration and development activities. Capitalized G&A in the current period relates to the Indonesia properties and the L53 concession in Thailand. These allocations are reviewed periodically by management and will continue to reflect the nature of the Company's capital activities in future periods.

Production growth and increasing capital activity in Thailand has necessitated hiring of additional staff and caused other incremental administrative costs. The Company's Indonesia operations have contributed to a significant portion of the gross G&A but with the proportion that is currently capitalized, have little effect on net G&A. Total G&A expenses of $3.3 million in 2009 compared to $2.3 million in 2008 were 44% higher but on a per barrel basis, net G&A for the three and six months ended June 30, 2009 respectively, was only 2% and 12% higher, than the comparable periods of 2008.

**Capital Invested**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| **($000s)** | **2009** | **2008** | **2009** | **2008** |
| Thailand | | | | |
| Land and G&G | **108** | 172 | **420** | 481 |
| Drilling and completions | **12,542** | 6,634 | **22,360** | 9,716 |
| Inventory purchases (usage) | **(129)** | (233) | **289** | 185 |
| Other | **(57)** | 108 | **173** | (223) |
| Total Thailand | **12,464** | 6,681 | **23,242** | 10,159 |
| Indonesia | **2,339** | - | **5,012** | - |
| Canada | **103** | 5 | **248** | 108 |
| Total capital expenditures | **14,906** | 6,686 | **28,502** | 10,267 |
| Indonesia acquisition expenditures – cash | **-** | 15,406 | **-** | 15,406 |
| Total capital and acquisition expenditures - cash | **14,906** | 22,096 | **28,502** | 25,673 |
| Indonesia acquisition expenditures – non cash | **-** | 4,124 | **-** | 4,124 |
| Total capital expenditures | **14,906** | 26,220 | **28,502** | 29,797 |

*Thailand*

In 2008 the Company's capital program consisted primarily of developing its Na Sanun East (NSE) property. In 2009 the focus has shifted primarily to exploration targets. Of the $22.4 million of drilling and completion capital incurred in the current year, over 90% was dedicated to exploration and appraisal activities. So far in 2009 the drilling program has resulted in modest production gains however, more important to Pan Orient's long term growth is the discoveries resulting from these activities. Year-to-date the Company has drilled 15 (9.0 net) wells resulting in eight producing wells, four wells which are currently being tested, and three wells which were not capable of production.

Significant results of this drilling activity include:

- NSE-F1 – discovery established commercial production 1 kilometer from the nearest NSE field producer;
- NSE-E2 and NSE-H1 – successful appraisal wells adding to production;
- L44-W – a potentially significant new oil field discovery straddling concessions L44 and L33;
- NSE-H3 – new pool discovery in previously untested volcanic reservoir;
- NSE-I1 – new field discovery in previously untested volcanic reservoir; and
- Bo Rang-1 RD – commercial oil rates were not achieved but excellent reservoir was inferred and there is strong evidence that the primary volcanic objective is oil bearing.

The Company has four (2.4 net) wells that started drilling by June 30, 2009 and which are in various stages of testing:

- NSE-J1 and NSE-J2 – development wells in the NSE central fault compartment and there is potential for the discovery of a new producing sandstone reservoir at NSE-J1;
- Bo Rang-2 – appraisal well and following of Bo Rang-1 RD; and
- L44-W2 – first appraisal well for the L44-W discovery.

Planned drilling activity for the remainder of 2009 is dependent on the results for wells currently being tested, but includes additional drilling in L44, the drilling of up to two wells in L33, and initial drilling of two wells in L53.

*Indonesia*
The Company's seismic programs for Citarum and Batu Gajah are currently underway and drilling is expected to commence in the first half of 2010 with up to 4 (gross) exploration wells planned for each PSC. With the exception of $1.0 million incurred for testing of the Pasundun-1 well, substantially all capital costs in 2009 related to the Citarum seismic program.

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

The Company's 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 June 30, 2009 Pan Orient's cash and cash equivalents was $51.1 million compared to $104.2 million at March 31, 2009 and $98.9 million at December 31, 2008; the decrease attributable to the $55.3 million payment in May 2009 of SRB and taxes related to 2008. At June 30, 2009, $39.6 million was held in Thailand, $8.3 million was held in Canada, and the remainder in Indonesia. As of the date of this report, approximately $25.8 million, of the Company's current cash balance was held in Canada, at interest rates similar to short term deposits. The Company intends to continue shifting excess capital from Thailand to Canada on a regular basis to closely monitor foreign exchange and interest earned on funds held as well as to have available for redistribution to Indonesia as needed.

Pan Orient has funded its 2009 capital program of $28.5 million entirely through funds generated from operation activities of $31.8 million. The Company closely monitors its cash position and in the future, plans to continue to fund its ongoing capital program and future commitments with existing cash surplus and expected cash flows from Thailand operations.

Working capital plus non current cash deposits at June 30, 2009 was $42.0 million compared to $47.7 million at March 31, 2009 and $46.3 million at December 31, 2008. 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 is as follows:

| | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| **($000s)** | **2009** | **2008** | **2009** | **2008** |
| Balance at beginning of period | **47,705** | 48,153 | **46,386** | 40,763 |
| Funds flow from operations | **16,577** | 10,947 | **31,816** | 21,560 |
| Capital expenditures | **(14,906)** | (6,686) | **(28,502)** | (10,267) |
| Indonesia acquisition | **-** | (15,405) | **-** | (15,405) |
| Unrealized foreign exchange on working capital | **(7,957)** | (1,050) | **(8,281)** | (757) |
| Proceeds on exercise of stock options | **550** | 364 | **550** | 429 |
| Balance at end of period | **41,969** | 36,323 | **41,969** | 36,323 |

At June 30, 2009, Pan Orient held $7.5 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 crisis that prompted the fall in commodity prices beginning mid-2008 continued into early 2009 but February through June saw a steady increase with some speculations that the global economy will recover within a year's time. The sustainability of the recent increase in crude oil prices is uncertain, particularly in light of the current high global level of inventories, surplus productive capacity and uncertainty on the timing of the 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 limited access to capital, both equity and credit. Given the Company's present working capital position and positive cash flows in the 2009 price environment, management does not expect any current capital programs to be curtailed however the Company continues to proactively forecast cash flows to assess whether planned capital activities are manageable.

***Share Capital***

| Outstanding at period-end | August 25, 2009 | June 30, 2009 |
|---|---|---|
| Common shares | 46,168,366 | 46,168,366 |
| Common shares issuable on conversion of stock options | 4,541,500 | 4,541,500 |
| Total | 50,709,866 | 50,709,866 |

**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 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 baht and U.S. dollar denominated financial statement items for the reporting periods as specified were as follows:

| | 2009 | | 2008 | | | | 2007 |
|---|---|---|---|---|---|---|---|
| | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** |
| **Rate at end of period** | | | | | | | |
| Thai baht / CAD $ exchange | **29.14** | 27.96 | 28.43 | 32.15 | 32.84 | 30.48 | 34.00 |
| U.S. dollar / CAD $ exchange | **1.115** | 1.257 | 1.223 | 1.039 | 1.011 | 1.020 | 0.982 |

The Company's treasury function has been established with the goal of minimizing foreign currency exchange fluctuations to the extent possible. In addition to expatriating funds to Canada to hold in Canadian dollars, an integral part of this process is maintaining an appropriate cushion of baht in Thailand to satisfy payments in that currency as they come due, the most significant of which are the Company's SRB and taxes.

Foreign exchange was a prevalent factor in net income for the second quarter and year-to-date 2009 and will likely continue to be so in future periods. In previous periods the Company had repatriated a portion of its investment in Thailand and in the second quarter of 2009 the process of recovering the investment in its entirety was initiated. Therefore, from April 1, 2009, all translation differences from the Company's Thailand operations are included in earnings in accordance with GAAP. In previous periods, all Thailand translation differences were recorded in accumulated other comprehensive income (OCI) on the balance sheet and a portion was transferred to earnings based on how much of the investment had been repatriated as of the balance sheet date. Exchange gains or losses on assets and liabilities held in Canada are included in earnings and translation gains or losses from the Company's self-sustaining Indonesia entities are recorded in accumulated OCI.

During the quarter the Canadian dollar remained strong relative to the baht and U.S. dollar as they declined in value. As a result the translation effect was significant in the second quarter of 2009.

The components of the Company's foreign exchange (loss) gain were as follows:

| ($000s) | Three Months Ended June 30 2009 | 2008 | Six Months Ended June 30 2009 | 2008 |
|---|---|---|---|---|
| Realized | | | | |
| Canada – movement of funds | **(224)** | (1,566) | **(227)** | (1,197) |
| Thailand gain transferred from OCI | **969** | 590 | **749** | 590 |
| Total realized | **745** | (976) | **522** | (607) |
| Unrealized | **(11,801)** | 280 | **(11,726)** | 116 |
| Total Foreign Exchange (Loss) | **(11,056)** | (696) | **(11,204)** | (491) |

The impact of foreign exchange on Pan Orient's balance sheet was as follows:

| ($000s) | Three Months Ended June 30 2009 | 2008 | Six Months Ended June 30 2009 | 2008 |
|---|---|---|---|---|
| Unrealized effect of foreign exchange on non-cash working capital | **(2,219)** | (1,034) | **(6,706)** | (873) |
| Unrealized effect of foreign exchange on cash | **(5,738)** | (16) | **(1,575)** | 116 |
| Unrealized effect on long term assets | **(4,405)** | (2,154) | **(3,078)** | 2,649 |
| Translation effect on future tax liability | **173** | 153 | **141** | 153 |
| Recorded as accumulated OCI | **388** | 3,331 | **(508)** | (1,929) |
| Total unrealized foreign exchange (loss) gain | **(11,801)** | 280 | **(11,726)** | 116 |

**Commitments**

As at June 30, 2009 the Company's estimated outstanding capital commitments were as follows:

| Country and Concession Name | Work Program Commitment | Obligation Period Ending | Estimated Net Financial Commitment USD ($000s) | CAD ($000s) |
|---|---|---|---|---|
| **Thailand** | | | | |
| L 53/48 | ▪ geological studies<br>▪ drill exploration 2 wells | January 2013 | 780 | 902 |
| L 44/43 | ▪ drill 3 exploration wells<br>▪ study and training fund | July 2012 | 924 | 1,068 |
| L33/43 | ▪ drill 3 exploration wells | July 2012 | 630 | 728 |
| **Indonesia** | | | | |
| Batu Gajah | ▪ 500 km 2D seismic<br>▪ 400 km$^2$ 3D seismic<br>▪ drill 3 exploration wells | January 2010 | 32,492 | 37,561 |
| Citarum | ▪ 1,250 km 2D seismic<br>▪ drill 3 exploration wells | October 2009 | 25,446 | 29,416 |
| South CPP | ▪ 200 km 2D seismic reprocessing<br>▪ drill one exploration well | November 2011 | 5,050 | 5,838 |
| **Total** | | | 65,322 | 75,513 |

*(1) Translated at June 30, 2009 exchange rate of US $1 = CAD $1.156.*

Indonesia financial commitments only include the current exploration phase that the Company is conducting. If Pan Orient exercises its options to continue beyond the obligation periods noted above, additional commitments will be determined on a year-by-year basis through submission of a work program and approval from the Indonesian government. The actual commitments are the work programs themselves and the expenditures as provided in the table above represents the Company's estimated costs in meeting these commitments. Actual expenditures required to carry out these commitments may be significantly different than the estimates.

The intended timing of the Indonesian capital activities does not always fall within the "obligation period ending" in the table above. Each year the Company submits a work program for each PSC to the Government of Indonesia (GOI) and along with it, a request to roll forward any incomplete commitments from the previous year. The above obligation periods for the Citarum and Batu Gajah operations represent the most-recently approved work programs for 2009 pursuant to this practice. In the past, such requests on behalf of Pan Orient have been approved by the GOI and management has no reason to believe that they will not be however there is no guarantee that future requests will be granted approval.

**Summary of Quarterly Results**

| | **2009** | | | **2008** | | | **2007** | |
|---|---|---|---|---|---|---|---|---|
| | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** |
| **Production (bbl/d)** | **4,840** | 6,165 | 6,982 | 4,291 | 3,894 | 4,604 | 2,320 | 722 |
| **Per Unit information ($/bbl)** | | | | | | | | |
| Realized oil price | **60.01** | 48.12 | 56.56 | 109.54 | 100.13 | 77.56 | 72.34 | 63.44 |
| Royalties | **(4.31)** | (3.82) | (4.55) | (7.11) | (6.63) | (5.38) | (4.36) | (3.64) |
| Transportation & operating | **(6.66)** | (4.81) | (4.16) | (4.91) | (5.83) | (4.03) | (4.99) | (6.19) |
| | **49.04** | 39.50 | 47.85 | 97.52 | 87.67 | 68.15 | 62.99 | 53.61 |
| **Financial ($000's) except as indicated** | | | | | | | | |
| Oil revenue | **26,432** | 26,699 | 36,329 | 43,241 | 35,486 | 32,498 | 15,435 | 4,214 |
| Interest revenue | **109** | 304 | 424 | 209 | 93 | 265 | 234 | 118 |
| Net (loss) income | **(5,349)** | 2,768 | 10,813 | 9,058 | 8,458 | 3,423 | 6,699 | 86 |
| Per share basic ($) | **(0.12)** | 0.06 | 0.24 | 0.20 | 0.19 | 0.08 | 0.15 | 0.00 |
| Per share diluted ($) | **(0.12)** | 0.06 | 0.23 | 0.19 | 0.17 | 0.07 | 0.14 | 0.00 |
| Capital expenditures[(1)] | **14,906** | 13,596 | 16,598 | 13,627 | 6,686 | 3,581 | 6,524 | 9,035 |
| Total assets | **227,898** | 271,680 | 259,208 | 220,521 | 196,617 | 175,279 | 142,470 | 104,657 |
| Shares outstanding (000s) | **46,168** | 45,568 | 45,568 | 45,650 | 45,770 | 45,247 | 45,218 | 41,635 |

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

***Quarterly Summary***

**Q3 2007** – Two wells from the Na Sanun East drilling program came on production at a combined stabilized rate of approximately 1,700 bbl/d. Pan Orient raised $6.4 million through the issuance of 1.5 million common shares at a price of $4.25 per share. The net proceeds from the offering were used to accelerate the 3-D seismic acquisition for L53/48. Andora purchased Signet Energy, diluting Pan Orient's ownership interest in Andora to 53.5%.

**Q4 2007** – Positive results from the Na Sanun drilling program increased production capacity to 6,000 bbl/d (3,600 bbl/d net). Due to transportation (trucking) constraints the Company was not able to produce to capacity and average daily production for the quarter was 2,320 bbl/d (net), an increase of 221% over the previous quarter. Pan Orient exercised 2.25 million Andora Energy warrants at a price of $1.60 per share to increase the Company's ownership interest in Andora Energy to 55.4%. The Company raised gross proceeds of $32.0 million through the issuance of 3.5 million common shares at a price of $9.15 per share.

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

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

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

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

**Q1 2009** – Pan Orient continued to benefit from strong production levels and funds flow from operations in Thailand which fully funded drilling operations in Thailand of $10.8 million and seismic programs in Indonesia of $2.7 million. Overall corporate funds flow from operations of $15.2 million funded capital expenditures of $13.6 million and increased working capital and deposits by $1.3 million. Thailand oil production averaged 6,165 barrels per day and generated funds flow from Thailand operations of $15.8 million. Thailand funds flow from operations per barrel of $28.54 was comprised of oil revenue of $48.12, less transportation and operating expenses of $4.81, less G&A and other items of $1.62 and amount to the Thai government of $13.15 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 per barrel of $39.60 was comprised of oil revenue of $60.01, less transportation and operating expenses of $6.66, less G&A and other items of $0.09 and amount to the Thai government of $13.65 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.

## Accounting Standards

### *Recent Accounting Pronouncements*

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

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

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

*Financial Instruments*
In May 2009, the CICA amended Section 3862, *"Financial Instruments – Disclosures"* to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level One are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair values of assets and liabilities in Level Two include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Fair values in Level Three are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments will be effective for Pan Orient on December 31, 2009.

*International Financial Reporting Standards*
International Financial Reporting Standards (IFRS) will be adopted as Canadian GAAP for the purpose of public company interim and annual reporting beginning on or after January 1, 2011. This transition is a significant undertaking that may materially affect the Company's reported financial position and results of operations although currently the Company cannot reasonably estimate the effect on the financial statements.

The Company is currently finalizing its plan and timetable it will utilize to become IFRS compliant by January 2011. A team is currently being assembled to complete the first phase of the plan which consists of assessing the impact of IFRS on existing accounting policies, data systems, internal controls over financial reporting and business activities. This team will report to the Chief Financial Officer and the audit committee. The assessment report and any related tasks are expected to be completed in the current year to prepare the Company for dual reporting capabilities in 2010.

The Company continually monitors the development of standards issued by the International Accounting Standards Board and the Canadian Accounting Standards Board which may affect the timing, nature or disclosure of the company's adoption of IFRS.

**Additional Information**

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