



## **PAN ORIENT ENERGY CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE  
THREE MONTHS ENDED MARCH 31, 2009**

*Please note the interim consolidated financial statements for the  
three months ended March 31, 2008 have not been reviewed  
or audited by external auditors.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

May 19, 2009

### Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared effective May 19, 2009, and should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three months ended March 31, 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.

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 reserves; the Company's ability to add reserves through development and exploration activities; fluctuations in currency exchange rates; and changes in government legislation and regulations, including royalty and tax laws.

The forward-looking statements contained herein are as of May 19, 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-GAAP measure in this section all amounts presented in this MD&A are calculated in accordance with GAAP.

Funds flow from operations (funds flow), which represents cash flow from operating activities prior to changes in non-cash working capital is used by the Company to evaluate operating performance, leverage and liquidity. The following table reconciles funds flow from operations to cash flow from operating activities which is the most directly comparable measure calculated in accordance with GAAP:

(\$000s)	Three Months Ended March 31	
	2009	2008
Cash flow from operating activities	16,935	29,041
Changes in non-cash working capital	(1,697)	(18,429)
Funds flow from operations	15,238	10,612

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 and cash taxes. 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 sand leases. Pan Orient is continually pursuing other oil and natural gas exploration acreage in Asia.

#### 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 and L44 is partially developed. Concessions L33 and L53 are undeveloped. Planned drilling activity for 2009 currently includes 25 wells on L44, 2 wells on L33 and 2 wells on 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 and subsequently abandoned. The Company's seismic program for Citarum is currently underway and the program for Batu Gajah is expected to commence in June 2009. Drilling is currently expected to commence in late 2009 or early 2010 with 3 wells planned for each PSC. 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 Andora is currently waiting approval from the Alberta Energy Resources Conservation Board (ERCB) to build and operate a steam assisted gravity drainage (SAGD) demonstration project. The proposed project includes a single well pair designed for peak anticipated production rates of 750 bbl/d. Given the current oil price environment, any decisions to proceed with demonstration project will likely be deferred to 2010.

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 March 31	
	2009	2008
Oil revenue (\$000s)	26,699	32,498
Average daily production (bbls/d)	6,165	4,604
Operating netback		
Realized oil price	\$48.12	\$77.56
Royalties	(3.81)	(5.38)
Transportation expenses	(2.26)	(2.43)
Operating expenses	(2.55)	(1.60)
Total operating netback	39.50	68.15
Interest income	0.55	0.63
General & administrative expenses	(2.74)	(2.11)
Foreign new venture expenditures	(0.07)	-
Special Remuneratory Benefit	(5.26)	(27.05)
Income tax	(4.11)	(15.18)
Realized foreign exchange	(0.41)	0.88
Total corporate netback	\$27.46	\$25.33

Pan Orient's financial results are contingent upon its realized prices for crude oil 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 economic crisis that prompted the fall in commodity prices beginning mid-2008 continued into the first quarter of 2009 and the Company's realized price received for the first quarter of 2009 was 38% lower than the comparable period of 2008. However, the corporate netback of \$27.46 per barrel is 8% higher in 2009 as a result of lower royalties and cash taxes (special remuneratory benefit and income tax in Thailand). In 2009 the Company recorded a realized foreign exchange loss of \$0.41/bbl for the first quarter.

The price effect on revenues was offset by increasing production volumes to 6,165 bbl/d in the first quarter of 2009 from 4,604 bbl/d in the first quarter of 2008. This represents an improvement of 34% and is directly correlated to the Company's successful Na Sanun East drilling program. The reduction in production volumes compared with the average in the fourth quarter of 2008 of 6,982 bbl/d is attributable to wells coming off flush production and a recent focus on exploration targets as opposed to development opportunities. To date, the Company's operations have been unaffected by political events in Thailand.

## Royalties

	Three Months Ended March 31	
	2009	2008
Royalties - \$000s	2,116	2,254
Royalties - \$/bbl	3.81	5.38
Royalties - % of revenue	7.9	6.9

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 portion of production from the Wichian Buri oil field. The GORR is only payable on approximately 2% of the Company's total production and does not have a significant impact on the Company's 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. Overall royalties of \$2.1 million for 2009 were 6% lower than in the previous year as a result of lower revenues.

## Transportation and Operating Expenses

<b>(\$000s)</b>	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Operating expenses	<b>1,415</b>	668
Transportation expenses	<b>1,253</b>	1,018
Total production expenses	<b>2,668</b>	1,686

  

<b>(\$/bbl)</b>		
Operating expenses	<b>2.55</b>	1.60
Transportation expenses	<b>2.26</b>	2.43
Total production expenses	<b>4.81</b>	4.03

Transportation expenses represent the costs to truck the Company's oil production in Thailand to the refinery in Bangkok and on a per barrel basis, costs are generally consistent regardless of production volumes.

Operating expenses are associated with the operations in Thailand. Almost half 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. Therefore, the Company realizes significant economies of scale on high volume wells, resulting in reduced unit operating expenses. Operating expenses of \$1.60/bbl reported for the first quarter of 2008 were abnormally low due to certain adjustments recorded in the period. For the year ended December 31, 2008, the average cost per barrel was \$2.11 and operating expenses of \$2.55/bbl in the first quarter of 2009 is a function of production volumes for the period and the current workforce in Thailand which provides a certain amount of anticipated growth. Operating expenses on a per unit basis will be determined by future production additions.

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

	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Depletion, depreciation and accretion – \$000s	<b>6,759</b>	3,086
Depletion, depreciation and accretion – \$/bbl	<b>12.18</b>	7.37

DD&A expense for the three months ended March 31, 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. DD&A for the fourth quarter of 2008 was \$11.41/bbl. The increase in DD&A expense over the previous quarter is a reflection of the increased capital base with no change to proved reserves.

Excluded from the depletable base was \$16.3 million related to unproved properties in Thailand and equipment for future exploration and development activities. Costs subject to depletion included \$11.1 million of estimated future development costs for proved reserves.

## 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 US dollar relative to the Company's reporting currency must be recognized. In accordance with GAAP, 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 Thailand and Indonesia entities are recorded in other comprehensive income. As the parent Company realizes its investment, the proportionate amount of translation gains and losses in accumulated other comprehensive income is transferred to earnings and included in the foreign exchange gain (loss).

**Accumulated Other Comprehensive Income**

<b>(\$000s)</b>	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Balance, beginning of period	4,037	(1,722)
Unrealized foreign currency translation gain	676	5,260
Foreign exchange loss realized	220	-
Balance, end of period	4,933	3,538

**Foreign Exchange Gain (Loss)**

<b>(\$000s)</b>	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Foreign exchange gain in Canada	72	205
Foreign exchange loss realized on self-sustaining entities	(220)	-
Total foreign exchange (loss) gain	(148)	205
Realized (loss) gain	(223)	369
Unrealized gain (loss)	75	(164)
Total foreign exchange (loss) gain	(148)	205

The majority of the Company's expenses are paid in Thai baht, notably Thai taxes and SRB. As such, the majority of the Company's funds are maintained in baht therefore alleviating the potential of large foreign currency exchange gains or losses.

**Special Remuneratory Benefit and Income Taxes**

<b>(\$000s)</b>	<b>Three Months Ended March 31</b>	
	<b>2009</b>	<b>2008</b>
Special remuneratory benefit (SRB)	2,920	11,335
Current tax	2,280	6,360
Total current tax	5,200	17,695
Future tax expense (reduction)	5,441	3,631
Total tax expense	10,641	21,326

Pan Orient pays 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.

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, the effective rates of these taxes can vary significantly from the actual tax rates. For the three months ended March 31, 2009, as a percentage of petroleum revenues, the Company's SRB was 11% (2008 - 35%) and income tax was 9% (2008 - 20%).

Taxes payable at March 31, 2009 represents SRB for the year ended December 31, 2008, income tax for the six months ended December 31, 2008 and SRB and income tax for the three months ended March 31, 2009. The amounts payable applicable to 2008 are scheduled to be paid during the second quarter from the Company's existing cash balance.

## General and Administrative (G&A) Expenses

	Three Months Ended March 31	
	2009	2008
G&A – \$000s	1,522	885
G&A – \$/bbl	2.74	2.11

The 72% increase in G&A expenses compared to the first quarter of 2008 has been driven by growth in production and activity which has necessitated hiring of additional staff and other incremental administrative costs. As a result of increased production volumes, on a per barrel basis, G&A for the three months ended March 31, 2009 was only 30% higher than comparable period of 2008.

## Capital Invested

(\$000s)	Three Months Ended March 31	
	2009	2008
Thailand	10,360	3,453
Thailand inventory	418	(185)
Indonesia	2,673	-
Canada	145	313
Total	13,596	3,581

In Thailand \$9.8 million of the \$10.4 million of expenditures were related to drilling activities on L44 where 7 (4.2 net) wells were drilled with a 71% success rate. During the current quarter \$1.3 million of seismic costs were incurred on Citarum and \$0.5 million for the Pasundan-1 well testing that carried over from year end.

A \$1.4 million bond for the Company's Citarum seismic program was set up during the period and included in non current deposits.

The 2009 capital budget for Thailand is currently \$34.0 million and includes 29 wells with 25 (15.0 net) in L44, 2 (1.2 net) in L33 and 2 (2.0 net) on L53. The Company's capital expenditures for Indonesia will be determined by the timing and extent of work commitments required and are estimated under "Commitments".

## Liquidity and Capital Resources

### *Liquidity*

At March 31, 2009 Pan Orient's working capital was \$41.9 million and the cash balance was \$104.2 million. In the first quarter of 2009 the Company funded its capital programs through cash generated from operating activities. The Company plans to maintain its strong financial position by funding its ongoing capital program and future commitments with existing cash surplus and expected cash flows from Thailand operations.

In addition to working capital of \$41.9 million, the Company held \$5.8 million of deposits and \$6.0 million of equipment inventory to be utilized for future Thailand and Indonesia operations. The 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.

### *Current Economic Conditions*

The recent decline in commodity prices reduces 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. The Company is continually evaluating the current economic conditions to assess whether planned capital activities are manageable. Given the Company's present working capital position and profitability in the current price environment, management does not expect any current capital programs to be curtailed. The future direction of oil prices will be largely dependent on the timing and extent of recovery from the economic crisis.

## Share Capital

Outstanding at period-end	May 19, 2009	March 31, 2009
Common shares	46,168,366	45,568,366
Common shares issuable on conversion of stock options	4,241,500	4,441,500
Total	50,409,866	50,009,866

## Commitments

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

		Net Financial Commitment		
Country and Concession Name	Work Program Commitment	Obligation Period Ending	USD (\$000s)	CAD (\$000s)
<b>Thailand</b>				
L 53/48	<ul style="list-style-type: none"> <li>▪ geological studies</li> <li>▪ drill 2 wells</li> </ul>	January 2013	780	980
L 44/43	<ul style="list-style-type: none"> <li>▪ Study and training fund</li> </ul>	July 2009	24	30
<b>Indonesia</b>				
Batu Gajah	<ul style="list-style-type: none"> <li>▪ 500 km 2D seismic</li> <li>▪ 400 km<sup>2</sup> 3D seismic</li> <li>▪ drill 3 exploration wells</li> </ul>	January 2010	32,776	41,183
Citarum	<ul style="list-style-type: none"> <li>▪ 1,250 km 2D seismic</li> <li>▪ drill 3 exploration wells</li> </ul>	October 2009	26,725	33,579
South CPP	<ul style="list-style-type: none"> <li>▪ 200 km 2D seismic reprocessing;</li> <li>▪ drill one exploration well</li> </ul>	November 2011	5,050	6,345
<b>Total</b>			65,355	82,117

(1) Translated at March 31, 2009 exchange rate of US \$1 = CAD \$1.257.

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 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.

The Company's seismic program for Citarum is currently underway and the program for Batu Gajah is expected to commence in June 2009. Drilling is currently expected to commence in late 2009 or early 2010 for Batu Gajah and early 2010 for Citarum.



## Summary of Quarterly Results

	2009		2008		2007			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Production (bbl/d)</b>	<b>6,165</b>	6,982	4,291	3,894	4,604	2,320	722	501
<b>Per Unit information (\$/bbl)</b>								
Realized oil price	<b>48.12</b>	56.56	109.54	100.13	77.56	72.34	63.44	61.67
Royalties	<b>(3.82)</b>	(4.55)	(7.11)	(6.63)	(5.38)	(4.36)	(3.64)	(5.81)
Transportation & operating	<b>(4.81)</b>	(4.16)	(4.91)	(5.83)	(4.03)	(4.99)	(6.19)	(19.01)
	<b>39.50</b>	47.85	97.52	87.67	68.15	62.99	53.61	36.85
<b>Financial (\$000's) except as indicated</b>								
Oil revenue	<b>26,699</b>	36,329	43,241	35,486	32,498	15,435	4,214	2,812
Interest revenue	<b>304</b>	424	209	93	265	234	118	98
Net income (loss)	<b>2,768</b>	10,813	9,058	8,458	3,423	6,699	86	(1,239)
Per share basic (\$)	<b>0.06</b>	0.24	0.20	0.19	0.08	0.15	0.00	(0.03)
Per share diluted (\$)	<b>0.06</b>	0.23	0.19	0.17	0.07	0.14	0.00	(0.03)
Capital expenditures <sup>(1)</sup>	<b>13,596</b>	16,598	13,627	6,686	3,581	6,524	9,035	5,277
Total assets	<b>271,680</b>	259,208	220,521	196,617	175,279	142,470	104,657	79,855
Shares outstanding (000s)	<b>45,568</b>	45,568	45,650	45,770	45,247	45,218	41,635	40,135

<sup>(1)</sup> Not including acquisition of Indonesian companies and excluding asset retirement obligation

### Quarterly Summary

**Q2 2007** – The Company commenced drilling operations on the Na Sanun East field on L44/43 and, in compliance with Thailand work commitments, drilled an exploration well on L33/43.

**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 increase 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%.

## **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 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 eliminate it by deducting it from certain non-current assets in the purchase price allocation. 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 policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. These are not explicitly required under the current standards. Section 1601 is effective on January 1, 2011 with early adoption permitted. This standard is not anticipated to have a significant effect on the Company.

#### ***Non-controlling Interests***

In January 2009 the CICA issued section 1602, "Non-controlling Interests" which will replace CICA section 1600, "Consolidated Financial Statements". Minority interest is now referred to as non-controlling interest and is presented within equity. Under this new guidance, when there is a 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 1062 is effective on January 1, 2011, with early adoption permitted.

#### ***International Financial Reporting Standards***

Public companies will have to convert from Canadian GAAP to International Financial Reporting Standards (IFRS) 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.

To address concerns regarding the adoption of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the International Accounting Standards Board (IASB) issued exposure drafts including key transitional issues. An exemption relating to full cost oil and gas accounting is expected to reduce the administrative burden in the transition from the current Canadian Accounting Guideline 16. The amendment may potentially permit a reporting issuer to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized

exploration and development expenses, provided that a ceiling test, under IFRS standards, is conducted at the transition date. It is anticipated that this exposure draft will not result in an amended IFRS 1 until late 2009.

The Company is currently developing a timetable for assessing the impact of IFRS on data systems, internal controls over financial reporting and business activities, such as financing and compensation arrangements.

**Additional Information**

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) .