



**PAN ORIENT ENERGY CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE  
THREE AND SIX MONTHS ENDED JUNE 30, 2010**  
*(Unaudited)*

**Pan Orient Energy Corp.**  
**Consolidated Balance Sheets**  
*(Unaudited)*

| (\$000s)                                               | June 30, 2010  | December 31, 2009 |
|--------------------------------------------------------|----------------|-------------------|
| <b>Assets</b>                                          |                |                   |
| <b>Current</b>                                         |                |                   |
| Cash and cash equivalents                              | 29,643         | 44,760            |
| Accounts receivable                                    | 12,611         | 13,104            |
|                                                        | <b>42,254</b>  | <b>57,864</b>     |
| <b>Deposits</b>                                        | <b>3,994</b>   | <b>4,079</b>      |
| <b>Petroleum and natural gas properties</b> (note 4)   | <b>215,387</b> | <b>179,838</b>    |
|                                                        | <b>261,635</b> | <b>241,781</b>    |
| <b>Liabilities</b>                                     |                |                   |
| <b>Current</b>                                         |                |                   |
| Accounts payable and accrued liabilities               | 10,552         | 14,287            |
| Taxes payable (note 8)                                 | 11,667         | 14,918            |
|                                                        | <b>22,219</b>  | <b>29,205</b>     |
| <b>Future income tax</b>                               | <b>41,923</b>  | <b>34,812</b>     |
| <b>Asset retirement obligation</b> (note 5)            | <b>3,485</b>   | <b>2,829</b>      |
|                                                        | <b>67,627</b>  | <b>66,846</b>     |
| <b>Equity</b> (note 6)                                 |                |                   |
| <b>Shareholders' Equity</b>                            |                |                   |
| Share capital                                          | 109,925        | 104,846           |
| Contributed surplus (note 6e)                          | 10,618         | 8,274             |
| Accumulated other comprehensive income (loss) (note 7) | 808            | (4,149)           |
| Retained earnings                                      | 54,612         | 47,259            |
|                                                        | <b>175,963</b> | <b>156,230</b>    |
| <b>Non-controlling interest</b> (note 3 and note 6d)   | <b>18,045</b>  | <b>18,705</b>     |
|                                                        | <b>194,008</b> | <b>174,935</b>    |
| Commitments (note 10)                                  |                |                   |
|                                                        | <b>261,635</b> | <b>241,781</b>    |

See accompanying notes to the consolidated financial statements.

**Pan Orient Energy Corp.**  
**Consolidated Statements of Operations and Retained Earnings**  
*(Unaudited)*

| (\$000s, except per share amounts)                                              | Three Months Ended |         | Six Months Ended |         |
|---------------------------------------------------------------------------------|--------------------|---------|------------------|---------|
|                                                                                 | June 30            |         | June 30          |         |
|                                                                                 | 2010               | 2009    | 2010             | 2009    |
| <b>Revenue</b>                                                                  |                    |         |                  |         |
| Petroleum revenue                                                               | 22,436             | 26,432  | 47,474           | 53,132  |
| Royalties                                                                       | (1,384)            | (1,899) | (2,994)          | (4,014) |
| Interest                                                                        | 30                 | 109     | 66               | 412     |
|                                                                                 | <b>21,082</b>      | 24,642  | <b>44,546</b>    | 49,530  |
| <b>Expenses</b>                                                                 |                    |         |                  |         |
| Transportation                                                                  | 802                | 1,065   | 1,666            | 2,318   |
| Operating                                                                       | 1,949              | 1,866   | 4,147            | 3,281   |
| General and administrative                                                      | 565                | 1,740   | 1,868            | 3,262   |
| Depletion, depreciation and accretion                                           | 3,526              | 3,543   | 7,190            | 10,302  |
| Stock-based compensation                                                        | 3,695              | 562     | 3,987            | 879     |
| Foreign exchange (gain) loss                                                    | (68)               | 11,056  | 103              | 11,204  |
| Foreign new venture expenditures (note 4)                                       | 531                | -       | 531              | 36      |
|                                                                                 | <b>11,000</b>      | 19,832  | <b>19,492</b>    | 31,282  |
| <b>Income before taxes</b>                                                      | <b>10,082</b>      | 4,810   | <b>25,054</b>    | 18,248  |
| <b>Taxes (note 8)</b>                                                           |                    |         |                  |         |
| Special remuneratory benefit                                                    | 737                | 1,371   | 2,906            | 4,291   |
| Current income tax                                                              | 3,673              | 2,768   | 8,260            | 5,048   |
| Future income tax expense                                                       | 1,966              | 6,090   | 6,817            | 11,533  |
|                                                                                 | <b>6,376</b>       | 10,229  | <b>17,983</b>    | 20,872  |
| <b>Net income (loss) for the period</b>                                         | <b>3,706</b>       | (5,419) | <b>7,071</b>     | (2,624) |
| <b>Net income (loss) for the period attributable to (note 3):</b>               |                    |         |                  |         |
| Common Shareholders                                                             | 3,948              | (5,349) | 7,353            | (2,468) |
| Non-controlling interest                                                        | (242)              | (70)    | (282)            | (156)   |
| <b>Net income (loss) for the period</b>                                         | <b>3,706</b>       | (5,419) | <b>7,071</b>     | (2,624) |
| <b>Retained earnings, beginning of period</b>                                   |                    |         |                  |         |
| Retained earnings, beginning of period                                          | 50,664             | 35,008  | 47,259           | 32,127  |
| Net income (loss) for the period attributed to common shareholders              | 3,948              | (5,349) | 7,353            | (2,468) |
| <b>Retained earnings, end of period</b>                                         | <b>54,612</b>      | 29,659  | <b>54,612</b>    | 29,659  |
| <b>Net income (loss) per share attributable to common shareholders (note 6)</b> |                    |         |                  |         |
| Basic                                                                           | 0.08               | (0.12)  | 0.15             | (0.05)  |
| Diluted                                                                         | 0.08               | (0.12)  | 0.15             | (0.05)  |

See accompanying notes to the consolidated financial statements.

**Pan Orient Energy Corp.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
*(Unaudited)*

| (\$000s)                                                           | Three Months Ended<br>June 30 |         | Six Months Ended<br>June 30 |         |
|--------------------------------------------------------------------|-------------------------------|---------|-----------------------------|---------|
|                                                                    | 2010                          | 2009    | 2010                        | 2009    |
| Net income (loss) for the period                                   | <b>3,706</b>                  | (5,419) | <b>7,071</b>                | (2,624) |
| Foreign exchange gain on translation of self-sustaining operations | <b>6,070</b>                  | 581     | <b>4,957</b>                | 1,257   |
| Foreign exchange loss realized                                     | -                             | (969)   | -                           | (749)   |
| Comprehensive income (loss) for the period                         | <b>9,776</b>                  | (5,807) | <b>12,028</b>               | (2,116) |
| Comprehensive income (loss) for the period attributable to:        |                               |         |                             |         |
| Common Shareholders                                                | <b>10,018</b>                 | (5,737) | <b>12,310</b>               | (1,960) |
| Non-controlling interest                                           | <b>(242)</b>                  | (70)    | <b>(282)</b>                | (156)   |
| Comprehensive income (loss)                                        | <b>9,776</b>                  | (5,807) | <b>12,028</b>               | (2,116) |

See accompanying notes to the consolidated financial statements.

**Pan Orient Energy Corp.**  
**Consolidated Statements of Cash Flows**  
*(Unaudited)*

| (\$000s)                                                       | Three Months Ended<br>June 30 |                 | Six Months Ended<br>June 30 |                 |
|----------------------------------------------------------------|-------------------------------|-----------------|-----------------------------|-----------------|
|                                                                | 2010                          | 2009            | 2010                        | 2009            |
| <b>Cash Provided By (Used in)</b>                              |                               |                 |                             |                 |
| <b>Operating Activities</b>                                    |                               |                 |                             |                 |
| Net income (loss)                                              | 3,706                         | (5,419)         | 7,071                       | (2,624)         |
| Items not affecting cash                                       |                               |                 |                             |                 |
| Depletion, depreciation and accretion                          | 3,526                         | 3,543           | 7,190                       | 10,302          |
| Stock-based compensation                                       | 3,695                         | 562             | 3,987                       | 879             |
| Future income tax expense                                      | 1,966                         | 6,090           | 6,817                       | 11,533          |
| Foreign new venture expenditures                               | 474                           | -               | 474                         | -               |
| Unrealized foreign exchange loss                               | 94                            | 11,801          | 258                         | 11,726          |
|                                                                | 13,461                        | 16,577          | 25,797                      | 31,816          |
| Changes in non-cash working capital                            | (9,967)                       | (53,086)        | (5,843)                     | (51,387)        |
|                                                                | 3,494                         | (36,509)        | 19,954                      | (19,571)        |
| <b>Investing Activities</b>                                    |                               |                 |                             |                 |
| Petroleum and natural gas properties                           | (16,409)                      | (14,906)        | (36,678)                    | (28,502)        |
| Deposits                                                       | -                             | 722             | 140                         | (765)           |
| Change in non-cash working capital                             | (243)                         | 2,760           | (1,290)                     | 2,030           |
|                                                                | (16,652)                      | (11,424)        | (37,828)                    | (27,237)        |
| <b>Financing Activities</b>                                    |                               |                 |                             |                 |
| Issue of common shares on exercise of options                  | 1,721                         | 550             | 3,247                       | 550             |
| <b>Change in cash and cash equivalents</b>                     | <b>(11,437)</b>               | <b>(47,383)</b> | <b>(14,627)</b>             | <b>(46,258)</b> |
| <b>Effect of foreign exchange on cash and cash equivalents</b> | <b>(171)</b>                  | <b>(5,738)</b>  | <b>(490)</b>                | <b>(1,575)</b>  |
| <b>Cash and cash equivalents, beginning of period</b>          | <b>41,251</b>                 | <b>104,213</b>  | <b>44,760</b>               | <b>98,925</b>   |
| <b>Cash and cash equivalents, end of period</b>                | <b>29,643</b>                 | <b>51,092</b>   | <b>29,643</b>               | <b>51,092</b>   |
| <b>Taxes paid</b>                                              | <b>15,024</b>                 | <b>51,223</b>   | <b>15,024</b>               | <b>51,223</b>   |

See accompanying notes to the consolidated financial statements.

**Pan Orient Energy Corp.**  
**Notes to Consolidated Financial Statements (Unaudited)**

**1) DESCRIPTION OF BUSINESS**

Pan Orient Energy Corp. ("Pan Orient" or the "Company"), is an oil and natural gas company based in Calgary, Alberta, which holds properties onshore Thailand and Indonesia as well as interests in subsidiaries with properties in Northern Alberta. The Company pursues other oil and natural gas exploration acreage in Asia.

**2) SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

The unaudited interim consolidated financial statements of Pan Orient have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements of the Company for the year ended December 31, 2009, except as noted below. The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally required in the notes to the annual financial statements have been condensed or omitted and therefore these interim financial statements and notes thereto should be read in conjunction with the audited financial statements for the year ended December 31, 2009. Unless otherwise indicated, all financial amounts are reported in thousands of Canadian dollars.

**3) 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.

Pan Orient Energy Corp.  
Notes to Consolidated Financial Statements (Unaudited)

4) PETROLEUM AND NATURAL GAS PROPERTIES

| As at June 30, 2010 (\$000s)     | Cost           | Accumulated<br>Depreciation and<br>Amortization | Net Book Value |
|----------------------------------|----------------|-------------------------------------------------|----------------|
| Oil & Natural Gas                |                |                                                 |                |
| Canada                           | 57,467         | -                                               | 57,467         |
| Thailand                         | 152,544        | (46,203)                                        | 106,341        |
| Indonesia                        | 51,073         | -                                               | 51,073         |
| Office equipment                 | 1,809          | (1,303)                                         | 506            |
|                                  | <b>262,893</b> | <b>(47,506)</b>                                 | <b>215,387</b> |
| <hr/>                            |                |                                                 |                |
| As at December 31, 2009 (\$000s) |                |                                                 |                |
| Oil & Natural Gas                |                |                                                 |                |
| Canada                           | 56,624         | -                                               | 56,624         |
| Thailand                         | 123,936        | (39,429)                                        | 84,507         |
| Indonesia                        | 37,958         | -                                               | 37,958         |
| Office equipment                 | 1,754          | (1,005)                                         | 749            |
|                                  | <b>220,272</b> | <b>(40,434)</b>                                 | <b>179,838</b> |

General and administrative and stock-based compensation costs totaling \$1.2 million (2009 - \$1.0 million) and \$2.5 million (2009 - \$1.8 million) that were directly related to exploration and development activities have been capitalized for the three and six months ended June 30, 2010, respectively.

Costs associated with unproven properties of \$29.0 million (2009 - \$24.5 million) with respect to the Thai full cost pool have been excluded from the depletion calculation. The capitalized costs associated with Canada and Indonesia are not subject to depletion as production has not commenced.

Recoverability of the Canadian and Indonesian capitalized costs is dependent on successfully completing development of the properties. With respect to the Canadian properties, recoverability is also dependent on determining the technical feasibility of the project. Capitalized costs incurred to date do not necessarily represent present or future values.

In 2010 costs of \$531,000 (2009 - \$36,000) were expensed and included in foreign new venture expenditures as a result of unsuccessful bids for production sharing contracts in Indonesia. The costs expensed in 2009 related to an unsuccessful bid for various oil and gas concessions in India.

5) ASSET RETIREMENT OBLIGATIONS

| (\$000s)                                          | Three Months Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|---------------------------------------------------|-------------------------------|-------|-----------------------------|-------|
|                                                   | 2010                          | 2009  | 2010                        | 2009  |
| Asset retirement obligations, beginning of period | 2,970                         | 2,462 | 2,829                       | 1,964 |
| Obligations incurred                              | 455                           | 316   | 539                         | 766   |
| Accretion                                         | 60                            | 61    | 117                         | 109   |
| Asset retirement obligations, end of period       | <b>3,485</b>                  | 2,839 | <b>3,485</b>                | 2,839 |

Total undiscounted cash flows, escalated at 2.0%, required to settle the Company's asset retirement obligations are estimated to be \$10.3 million (2009 - \$9.1 million). Estimated costs incurred in 2010 have been discounted at Pan Orient's credit-adjusted, risk-free interest rate of 8% (2009 and prior - 10%).

Pan Orient Energy Corp.  
Notes to Consolidated Financial Statements (Unaudited)

6) EQUITY

a) Issued and Outstanding Class A Common Shares

| Common Shares                                                  | Number of shares | Amount (000s) |
|----------------------------------------------------------------|------------------|---------------|
| Balance as at December 31, 2009                                | 46,313,366       | \$ 104,846    |
| Exercise of stock options                                      | 2,280,834        | 3,247         |
| Transfer from contributed surplus on exercise of stock options | -                | 1,832         |
| Balance as at June 30, 2010                                    | 48,594,200       | \$ 109,925    |

b) Options to Purchase Common Shares

|                                 | Number of options | Weighted average exercise price (\$) |
|---------------------------------|-------------------|--------------------------------------|
| Balance as at December 31, 2009 | 4,441,500         | 3.66                                 |
| Granted                         | 2,411,500         | 7.15                                 |
| Exercised                       | (2,280,834)       | 1.42                                 |
| Balance as at June 30, 2010     | 4,572,166         | 6.61                                 |

| Options Outstanding<br>June 30, 2010 |                   |                                      |                                                     | Options Exercisable<br>June 30, 2010 |                                      |                                                     |
|--------------------------------------|-------------------|--------------------------------------|-----------------------------------------------------|--------------------------------------|--------------------------------------|-----------------------------------------------------|
| Exercise Price (\$)                  | Number of Options | Weighted Average Exercise Price (\$) | Weighted Average Remaining Contractual Life (years) | Number of Options                    | Weighted Average Exercise Price (\$) | Weighted Average Remaining Contractual Life (years) |
| 0.75 – 2.00                          | 66,666            | 1.80                                 | 0.42                                                | 66,666                               | 1.80                                 | 0.42                                                |
| 2.01 – 4.00                          | 1,169,000         | 3.57                                 | 2.23                                                | 883,000                              | 3.56                                 | 1.79                                                |
| 4.01 – 6.00                          | 350,000           | 5.58                                 | 4.01                                                | 129,167                              | 5.54                                 | 3.99                                                |
| 6.01 – 8.00                          | 2,411,500         | 7.15                                 | 3.80                                                | 803,835                              | 7.15                                 | 3.80                                                |
| 11.75                                | 575,000           | 11.75                                | 2.46                                                | 431,250                              | 11.75                                | 2.46                                                |
| 0.75 – 11.75                         | 4,572,166         | 6.61                                 | 3.20                                                | 2,313,918                            | 6.39                                 | 2.69                                                |

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

The original grant of options to officers and directors of Pan Orient on April 17, 2005 had an expiry date of April 17, 2010. A total of 1,634,000 common shares have been issued in 2010 pursuant to the exercise by officers and directors of this original grant of options.

c) Stock-based Compensation

A Black-Scholes option pricing model is used to estimate the fair value of options on the date of the grant and revalue stock options granted to consultants on a quarterly basis. The fair value of the stock based compensation is amortized over the vesting period of the options, generally being two to three years.

**Pan Orient Energy Corp.**  
**Notes to Consolidated Financial Statements (Unaudited)**

Weighted average assumptions and resultant fair values for stock options granted or revalued during the three and six months ended June 30, 2010 and 2009, were as follows:

|                                  | Three Months Ended<br>June 30 |         | Six Months Ended<br>June 30 |         |
|----------------------------------|-------------------------------|---------|-----------------------------|---------|
|                                  | 2010                          | 2009    | 2010                        | 2009    |
| Risk free interest rate (%)      | 2.74                          | 1.3     | 2.74                        | 1.0     |
| Expected lives (years)           | 4.0                           | 5.0     | 4.0                         | 5.0     |
| Expected volatility (%)          | 60                            | 85      | 60                          | 85      |
| Dividend per share (%)           | -                             | -       | -                           | -       |
| Weighted average fair value (\$) | \$3.44                        | \$ 2.82 | \$3.44                      | \$ 2.82 |

**d) Andora Energy Corporation**

**i) Issued and Outstanding Class A Common Shares**

As at June 30, 2010 Andora had 57.3 million (December 31, 2009 – 57.6 million) common shares issued and outstanding of which Pan Orient held 53.4% (December 31, 2009 – 53.2%).

During 2010 Andora settled a \$0.6 million account receivable related to a lawsuit from a previous business acquisition that was outstanding at December 31, 2009. In lieu of a cash settlement, 0.4 million shares of Andora that were held in escrow were released to Andora and cancelled which increased Pan Orient's interest from 53.2% to 53.5%. An additional 0.1 million shares were issued in May 2010 which decreased Pan Orient's interest from 53.5% to 53.4%.

In accordance with the new accounting policy on non-controlling interests (note 3), increases or decreases in a parent's ownership interest while retaining control is a capital transaction. The transactions resulted in a decrease in non-controlling interest of \$0.4 million and a decrease in contributed surplus of \$0.2 million.

**ii) Options to Purchase Common Shares of Andora**

|                                 | Number of<br>options | Weighted<br>average<br>exercise<br>price (\$) |
|---------------------------------|----------------------|-----------------------------------------------|
| Balance as at December 31, 2009 | 1,325,000            | 1.60                                          |
| Granted                         | 5,775,000            | 0.72                                          |
| Cancelled                       | (1,275,000)          | 1.60                                          |
| Balance as at June 30, 2010     | 5,825,000            | 0.73                                          |

The following stock options of Andora are outstanding and exercisable at June 30, 2010:

| Options Outstanding<br>June 30, 2010 |                      |                                               |                                                                 | Options Exercisable<br>June 30, 2010 |                                               |                                                                 |
|--------------------------------------|----------------------|-----------------------------------------------|-----------------------------------------------------------------|--------------------------------------|-----------------------------------------------|-----------------------------------------------------------------|
| Exercise<br>Price (\$)               | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price (\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (years) | Number of<br>Options                 | Weighted<br>Average<br>Exercise<br>Price (\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (years) |
| 0.72                                 | 5,775,000            | 0.72                                          | 3.81                                                            | 1,925,000                            | 0.72                                          | 3.81                                                            |
| 1.60                                 | 50,000               | 1.60                                          | 0.22                                                            | 50,000                               | 1.60                                          | 0.22                                                            |
| 0.72 – 1.60                          | 5,825,000            | 0.73                                          | 3.77                                                            | 1,975,000                            | 0.74                                          | 3.71                                                            |

On April 19, 2010 Andora cancelled 1,275,000 of the options outstanding and granted options to purchase 5,775,000 common shares under Andora's stock option plan. Each option has an exercise price of \$0.72; vest as to 1/3 on the grant date, and 1/3 on each year thereafter of the grant date and expire on April 19, 2014.

**Pan Orient Energy Corp.**  
**Notes to Consolidated Financial Statements (Unaudited)**

Weighted average assumptions and resultant fair values used in the Black Scholes calculations for Andora stock options granted or revalued during the three and six months ended June 30, 2010 and 2009 were as follows:

|                                  | Three Months Ended<br>June 30 |         | Six Months Ended<br>June 30 |         |
|----------------------------------|-------------------------------|---------|-----------------------------|---------|
|                                  | 2010                          | 2009    | 2010                        | 2009    |
| Risk free interest rate (%)      | 2.74                          | 1.0     | 2.74                        | 1.0     |
| Expected lives (years)           | 4.0                           | 5.0     | 4.0                         | 5.0     |
| Expected volatility (%)          | 40                            | 20      | 40                          | 20      |
| Dividend per share (%)           | -                             | -       | -                           | -       |
| Weighted average fair value (\$) | \$ 0.25                       | \$ 0.21 | \$ 0.25                     | \$ 0.21 |

**e) Contributed Surplus**

| (\$000s)                                            | Three Months Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|-----------------------------------------------------|-------------------------------|-------|-----------------------------|-------|
|                                                     | 2010                          | 2009  | 2010                        | 2009  |
| Balance, beginning of period                        | 7,731                         | 6,849 | 8,274                       | 6,531 |
| Pan Orient stock-based compensation expense         | 3,213                         | 558   | 3,504                       | 875   |
| Pan Orient stock-based compensation capitalized     | 127                           | 124   | 274                         | 116   |
| Andora stock-based compensation expense             | 482                           | 4     | 483                         | 4     |
| Andora stock-based compensation capitalized         | 58                            | 26    | 66                          | 35    |
| Change in Andora interest                           | (9)                           | -     | (151)                       | -     |
| Transferred to share capital on exercise of options | (984)                         | (340) | (1,832)                     | (340) |
| Balance, end of period                              | 10,618                        | 7,221 | 10,618                      | 7,221 |

**f) Net Income per Share Attributable to Common Shareholders**

The basic weighted average and diluted common shares outstanding were as follows:

|                                           | Three Months Ended<br>June 30 |            | Six Months Ended<br>June 30 |            |
|-------------------------------------------|-------------------------------|------------|-----------------------------|------------|
|                                           | 2010                          | 2009       | 2010                        | 2009       |
| Weighted average basic shares outstanding | 48,435,409                    | 46,014,564 | 47,721,288                  | 45,792,697 |
| Dilutive effect of stock options          | 757,282                       | -          | 766,114                     | -          |
| Weighted average diluted                  | 49,192,691                    | 46,014,564 | 48,487,402                  | 45,792,697 |

Options to purchase 2,986,500 common shares for the three and six months ended June 30, 2010 (June 30, 2009 – 875,000) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

**7) 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 Company's treasury function has been established with the goal of minimizing foreign currency exchange fluctuations to the extent possible. In addition to expatriating surplus funds from Thailand 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.

**Pan Orient Energy Corp.**  
**Notes to Consolidated Financial Statements (Unaudited)**

**Accumulated Other Comprehensive Income (“AOCI”)**

Activity related to the AOCI balance for the three and six months ended June 30, 2010 and 2009 was as follows:

| (\$000s)                                     | Three Months Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|----------------------------------------------|-------------------------------|-------|-----------------------------|-------|
|                                              | 2010                          | 2009  | 2010                        | 2009  |
| Balance at beginning of period               | (5,262)                       | 4,933 | (4,149)                     | 4,037 |
| Unrealized foreign currency translation gain | 6,070                         | 581   | 4,957                       | 1,257 |
| Foreign exchange loss realized               | -                             | (969) | -                           | (749) |
| Balance at end of period                     | 808                           | 4,545 | 808                         | 4,545 |

Accumulated other comprehensive income at the following balance sheet dates was comprised of the following:

| (\$000s)                                     | As at            |                  |
|----------------------------------------------|------------------|------------------|
|                                              | June 30,<br>2010 | June 30,<br>2009 |
| Foreign exchange gain related to Thailand    | 2,036            | 4,818            |
| Foreign exchange loss related to Indonesia   | (1,228)          | (273)            |
| Total Accumulated Other Comprehensive Income | 808              | 4,545            |

The amount included in AOCI for Thailand relates to translation gains and losses on the non-temporary portion of the investment and will continue to fluctuate based on the exchange rates between the Thai baht and Canadian dollar. The balance of the Indonesia AOCI will continue to fluctuate in future periods depending on the amount of capital invested in Indonesia and the exchange rates between the Canadian and U.S. dollar.

**8) THAILAND SPECIAL REMUNERATORY BENEFIT TAX AND INCOME TAXES**

The Company is required to pay both Special Remuneratory Benefit (SRB) and income tax in Thailand. Thai income tax is calculated at 50% of taxable income which is basically comprised of cash flow from operations before changes in working capital less capital expenditures and other permitted deductions.

SRB is calculated separately for each of the Company's four concessions and is not charged until all capital has been recovered. The sliding scale SRB rate ranges from 0 - 75% and is principally driven by production and pricing but is also subject to other adjustments such as changes in Thailand's consumer price index, wholesale price index and cumulative meters drilled on the concession. The calculated SRB tax rate is applied to petroleum profits as defined in Thai tax legislation which includes a deduction for capital spent.

A summary of tax payable for the three and six months ended June 30, 2010 and 2009 are as follows:

| (\$000s)                     | Three Months Ended<br>June 30 |          | Six Months Ended<br>June 30 |          |
|------------------------------|-------------------------------|----------|-----------------------------|----------|
|                              | 2010                          | 2009     | 2010                        | 2009     |
| Balance, beginning of period | 21,484                        | 61,352   | 14,918                      | 55,260   |
| SRB expense – current period | 737                           | 1,371    | 2,906                       | 4,291    |
| Income tax – current period  | 3,673                         | 2,768    | 8,260                       | 5,048    |
| Prior period SRB paid        | (6,585)                       | (36,048) | (6,585)                     | (36,048) |
| Prior period income tax paid | (8,439)                       | (15,175) | (8,439)                     | (15,175) |
| Foreign exchange             | 797                           | (4,786)  | 607                         | (3,894)  |
| Balance, end of period       | 11,667                        | 9,482    | 11,667                      | 9,482    |

**Pan Orient Energy Corp.**  
**Notes to Consolidated Financial Statements (Unaudited)**

**9) FINANCIAL INSTRUMENTS**

**Credit Risk**

The most significant exposure to this risk is relative to the sale of oil production; all of the Company's production is sold to a refinery owned by the Thai National Oil Company. Pan Orient is paid for its production on a monthly basis, typically within a week of the end of the month. The Company has assessed the risk of non-collection from the Thai government as minimal.

**Foreign Currency Exchange Rate Risk**

The Company's reporting currency is the Canadian dollar and its functional currencies are the Canadian dollar, the Thai baht and the U.S. dollar (USD). Changes in foreign exchange rates between the Canadian dollar and the U.S. dollar and Thai baht can affect net income (loss) and other comprehensive income (loss).

As at June 30 the following financial instruments were denominated in currencies other than the Canadian dollar:

| (\$000s)                                                 | As at June 30, 2010                 |                | As at June 30, 2009                 |              |
|----------------------------------------------------------|-------------------------------------|----------------|-------------------------------------|--------------|
|                                                          | Thai baht<br>(000s of Thai<br>baht) | USD (\$000s)   | Thai baht<br>(000s of Thai<br>baht) | USD (\$000s) |
| Cash and cash equivalents                                | <b>336,973</b>                      | <b>8,389</b>   | 1,129,951                           | 7,617        |
| Accounts receivable                                      | <b>294,037</b>                      | <b>687</b>     | 306,983                             | 971          |
| Deposits                                                 | <b>44,000</b>                       | <b>2,547</b>   | 44,000                              | 3,703        |
| Accounts payable                                         | <b>(183,462)</b>                    | <b>(4,002)</b> | (419,036)                           | (1,752)      |
| Taxes payable                                            | <b>(348,824)</b>                    | -              | (274,040)                           | -            |
| Net exposure in functional currency                      | <b>142,724</b>                      | <b>7,621</b>   | 787,858                             | 10,539       |
| Net exposure in Canadian dollars <sup>(1)</sup> (\$000s) | <b>4,689</b>                        | <b>8,078</b>   | 27,034                              | 12,174       |

(1) Translated at June 30, 2010 and 2009 exchange rates.

Based on financial instruments held at June 30, 2010 and 2009, fluctuations in the exchange rates as indicated below would have the following estimated effect on net income and other comprehensive income:

| (\$000s)                                            | As at June 30 |      |
|-----------------------------------------------------|---------------|------|
|                                                     | 2010          | 2009 |
| Effect of 1% change in CAD\$ to USD exchange rate:  |               |      |
| Pre-tax net income                                  | <b>93</b>     | 5    |
| Other comprehensive income                          | <b>9</b>      | 114  |
| Effect of 1% change in CAD\$ to baht exchange rate: |               |      |
| Pre-tax net income                                  | -             | 273  |
| Other comprehensive income                          | <b>47</b>     | -    |

The Company did not have any forward exchange contracts in place as at or during the three or six months ended June 30, 2010 or 2009.

Pan Orient Energy Corp.  
Notes to Consolidated Financial Statements (Unaudited)

10) COMMITMENTS

As at June 30, 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) <sup>(1)</sup> |
| <b>Thailand</b>                 |                                   |                          |                                    |                             |
| L 44/43                         | ▪ study and training fund         | July 2012                | 18                                 | 19                          |
| L33/43                          | ▪ geological studies              | July 2012                | 30                                 | 32                          |
|                                 | ▪ study and training fund         | July 2012                | 18                                 | 19                          |
| L 53/48                         | ▪ drill 4 exploration wells       | January 2013             | 1,300                              | 1,378                       |
|                                 | ▪ geological studies              |                          | 120                                | 127                         |
|                                 | ▪ study and training fund         |                          | 47                                 | 50                          |
| <b>Indonesia <sup>(2)</sup></b> |                                   |                          |                                    |                             |
| Citarum (3)                     | ▪ 270 km 2D seismic               | October 2011             | 9,069                              | 9,613                       |
|                                 | ▪ drill 3 exploration wells       |                          |                                    |                             |
| Batu Gajah (3)                  | ▪ 400 km 3D seismic               | January 2013             | 22,747                             | 24,112                      |
|                                 | ▪ drill 3 exploration wells       |                          |                                    |                             |
| South CPP (3)                   | ▪ 200 km 2D seismic               | November 2011            | 6,199                              | 6,571                       |
|                                 | ▪ drill one exploration well      |                          |                                    |                             |
| <b>Total</b>                    |                                   |                          | <b>39,548</b>                      | <b>41,921</b>               |

(1) Translated at June 30, 2010 exchange rate of US \$1 = CAD \$1.06.

(2) The Company owns a 90% working interest in the Batu Gajah production sharing contract (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).

(3) "Work Program Commitment" is primarily based on the PSC contracts but also includes certain revisions with respect to work required and timing of completion negotiated with and approved by the Government of Indonesia.

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

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

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

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

**Pan Orient Energy Corp.**  
**Notes to Consolidated Financial Statements (Unaudited)**

**11) SEGMENTED INFORMATION**

The Company has properties in three countries, each of which is considered a separate operating segment. The three segments consist of: 1) partially developed conventional petroleum and natural gas properties in Thailand; 2) undeveloped petroleum and natural gas properties in Indonesia; and 3) an undeveloped heavy oil property in Canada. The following table provides information for each geographical segment as at and for the three months ended June 30:

| (\$000s)                                              | Three Months Ended<br>June 30 |         | Six Months Ended<br>June 30 |         |
|-------------------------------------------------------|-------------------------------|---------|-----------------------------|---------|
|                                                       | 2010                          | 2009    | 2010                        | 2009    |
| Petroleum revenue                                     |                               |         |                             |         |
| Thailand                                              | <b>22,436</b>                 | 26,432  | <b>47,474</b>               | 53,132  |
| Indonesia                                             | -                             | -       | -                           | -       |
| Canada                                                | -                             | -       | -                           | -       |
| <b>Total</b>                                          | <b>22,436</b>                 | 26,432  | <b>47,474</b>               | 53,132  |
| Interest revenue                                      |                               |         |                             |         |
| Thailand                                              | <b>24</b>                     | 106     | <b>52</b>                   | 390     |
| Indonesia                                             | -                             | -       | -                           | -       |
| Canada                                                | <b>6</b>                      | 3       | <b>14</b>                   | 22      |
| <b>Total</b>                                          | <b>30</b>                     | 109     | <b>66</b>                   | 412     |
| Current income tax expense <sup>(1)</sup>             |                               |         |                             |         |
| Thailand                                              | <b>4,410</b>                  | 4,139   | <b>11,166</b>               | 9,339   |
| Indonesia                                             | -                             | -       | -                           | -       |
| Canada                                                | -                             | -       | -                           | -       |
| <b>Total</b>                                          | <b>4,410</b>                  | 4,139   | <b>11,166</b>               | 9,339   |
| Depletion, depreciation and accretion                 |                               |         |                             |         |
| Thailand                                              | <b>3,405</b>                  | 3,497   | <b>6,944</b>                | 10,178  |
| Indonesia                                             | <b>81</b>                     | 11      | <b>163</b>                  | 43      |
| Canada                                                | <b>40</b>                     | 35      | <b>83</b>                   | 81      |
| <b>Total</b>                                          | <b>3,526</b>                  | 3,543   | <b>7,190</b>                | 10,302  |
| Net income (loss) attributable to common shareholders |                               |         |                             |         |
| Thailand                                              | <b>7,384</b>                  | (3,975) | <b>11,082</b>               | 102     |
| Indonesia                                             | <b>(187)</b>                  | (151)   | <b>(321)</b>                | (455)   |
| Canada                                                | <b>(3,249)</b>                | (1,223) | <b>(3,408)</b>              | (2,115) |
| <b>Total</b>                                          | <b>3,948</b>                  | (5,349) | <b>7,353</b>                | (2,468) |
| Capital expenditures <sup>(2)</sup>                   |                               |         |                             |         |
| Thailand                                              | <b>9,582</b>                  | 12,465  | <b>23,001</b>               | 23,243  |
| Indonesia                                             | <b>6,481</b>                  | 2,338   | <b>13,267</b>               | 5,012   |
| Canada                                                | <b>346</b>                    | 103     | <b>410</b>                  | 247     |
| <b>Total</b>                                          | <b>16,409</b>                 | 14,906  | <b>36,678</b>               | 28,502  |
| Total assets                                          |                               |         |                             |         |
| Thailand                                              | <b>127,149</b>                | 118,779 | <b>127,149</b>              | 118,779 |
| Indonesia                                             | <b>55,852</b>                 | 41,104  | <b>55,852</b>               | 41,104  |
| Canada                                                | <b>78,634</b>                 | 68,015  | <b>78,634</b>               | 68,015  |
| <b>Total</b>                                          | <b>261,635</b>                | 227,898 | <b>261,635</b>              | 227,898 |

(1) Includes SRB and income tax.

(2) Does not include acquisition activities.



**PAN ORIENT ENERGY CORP.**

1505, 505 - 3rd Street SW, Calgary Alberta Canada T2P 3E6