



PAN ORIENT ENERGY CORP.

2006 MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the six months ended June 30, 2006 and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2005. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

The MD&A contains forward-looking information regarding the Company. 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 levels; production levels; royalty and depletion rates; the recoverability of reserves; transportation availability and costs; operating and other costs; interest rates and currency exchanges rates; and changes in environmental and other legislation and regulations.

Pan Orient Energy Corp. ("Pan Orient" or the "Company") is a junior oil and natural gas company based in Calgary, Alberta, which holds properties in northern Alberta and onshore Thailand and actively pursues opportunities in Asia for the acquisition of exploration acreage and exploration of oil and natural gas.

On April 8, 2005, Pan Orient Energy Corp. (formerly Welwyn Resources Ltd.) acquired of all of the issued and outstanding shares of Pan Orient Energy Ltd. This reverse take-over resulted in a change of control of Pan Orient, including the resignation of all of the then current officers and directors of Pan Orient and the appointment of all of Pan Orient Energy Ltd.'s officers and directors to the corresponding positions of Pan Orient. As a result of the transaction, the former shareholders of Pan Orient Energy Ltd. acquired control of Pan Orient.

As Pan Orient Energy Ltd. is deemed to be the acquirer, the consolidated financial statements prior to April 8, 2005, reflect only the accounts of Pan Orient Energy Ltd. Prior to the Reverse Take-Over, the Company had not conducted any operations other than the acquisition of non-producing oil and gas properties and as such its interest income and administrative expenses prior to that date were capitalized as acquisition costs. Included in the financial statements are the accounts of Pan Orient (formerly Welwyn Resources Ltd.) from April 8, 2005, forward.

On October 21, 2005, Pan Orient acquired 92 percent of the issued and outstanding shares of Tiger Petroleum Inc., ("Tiger"), as such the accounts of Tiger are included in the financial statements from October 21, 2005, forward. The remaining 8 percent was acquired in January, 2006.

Selected Quarterly Information

	2006		2005			
	Q2	Q1	Q4	Q3	Q2	Q1
Revenues						
Oil - Thailand	\$ 265,171	297,081	274,963	-	-	-
Royalties - Thailand	(37,247)	(53,075)	(33,288)	-	-	-
Interest - Canada	247,971	43,084	61,523	54,472	49,890	-
	<u>475,895</u>	<u>287,090</u>	<u>303,198</u>	<u>54,472</u>	<u>49,890</u>	<u>-</u>
Expenses						
Stock based compensation	677,024	323,354	101,553	96,920	484,600	-
General and administrative	432,441	209,491	173,199	110,776	117,644	-
Foreign new ventures expenditures	-	-	257,601	-	-	-
DD & A	120,738	143,609	98,054	2,943	2,943	-
Production and operating	115,033	109,171	67,969	-	-	-
Non-controlling interest	-	-	4,440	-	-	-
Interest on convertible debentures	-	-	4,017	-	-	-
Foreign exchange loss	51,653	29,093	-	-	-	-
	<u>\$ 1,396,889</u>	<u>814,718</u>	<u>706,833</u>	<u>210,639</u>	<u>605,187</u>	<u>-</u>
Net loss	<u>(920,994)</u>	<u>(527,628)</u>	<u>(403,635)</u>	<u>(156,167)</u>	<u>(555,297)</u>	<u>-</u>
Loss per share	<u>(0.03)</u>	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.01)</u>	<u>(0.02)</u>	<u>-</u>

The Company recorded oil revenues of \$265,171 for the three months ended June 30, 2006, bringing the six month total to \$562,252. Thailand oil production averaged 48 bbl/d, net to Pan Orient, during the second quarter and 54 bbl/d for the first half of 2006. Oil prices averaged \$60.58/bbl in the second quarter and \$57.92/bbl for the first half of the year. The Company is currently in the middle of a 7 well Thai drilling program. Oil revenues are expected to increase substantially in the fourth quarter once the Company completes and begins production of successful wells. Royalty expenses on Thailand oil production were \$37,247 for the second quarter bringing the six month total to \$90,322 or 16% of sales. The included government royalty is 5% of production up to 2,000 bbl/d, and increases to 6.25 % for production between 2,000 bbl/d and 5,000 bbl/d. Also included in royalty expense is a gross overriding royalty that is expected to average between 8% and 10% within the small area of existing production. Drilling outside of this overriding royalty encumbered area will only be subject to the government royalty.

On April 28, 2006, Pan Orient completed the issue of 8,000,000 common shares, at a price of \$3.75 per share, for total gross proceeds of \$30,000,000 (approximately \$28,084,000 net of commissions and costs). At June 30, 2006 the Company had over \$30,000,000 of cash on hand. Interest income for the second quarter, on the Company's cash deposits, was \$247,971.

General and administrative expenses for the second quarter of 2006 totaled \$432,441, bringing the six month total to \$641,932. An additional \$100,416 directly relating to exploration and development expenses was capitalized during the six months ended June 30, 2006. Second quarter G & A expenses increased over the first quarter, and the prior year, as the Company hired additional staff in preparation for its Thai drill program that began in July 2006.

Due to the granting of stock options during the second quarter, non-cash stock based compensation expense was \$677,024. The six month stock based compensation expense is \$1,000,378. As required under Canadian GAAP, the Company uses the fair value method to account for its stock based compensation.

Thailand production and operating costs totaled \$224,204 (\$22.98/bbl) for the first six months of 2006 with no material change between the first and second quarters. A large component of these costs are fixed. The per barrel Thailand production and operating costs are expected to fall as production increases in the fourth quarter.

Depletion, depreciation and accretion (DD&A) totaled \$264,347 (\$27.09/bbl) for the six month period. The largest component was depletion (\$185,000) related to Thailand oil production. The DD&A per barrel is expected to decrease if the Company is successful in converting probable reserves on the Thai properties into proven reserves.

The foreign exchange loss of \$51,653 reported for the second quarter relates principally to Thailand seismic bonds that were posted in US dollars, and brings the six month foreign exchange loss to \$80,746.

Nearly \$850,000 of the second quarter's loss of \$920,994 (\$0.03 per share) is attributable to non-cash expenses: stock based compensation, DD&A and foreign exchange. The year to date loss of \$1,448,622 (\$0.05 per share) is also largely comprised of the same non-cash expenses.

During the first half of 2006, the Company paid its officers, either directly or indirectly to Companies controlled by them, \$185,000 (2005: \$179,000) for consulting and management services.

The Company spent approximately \$3.2 million on capital activities during the second quarter, mostly related to the 3D seismic acquisition program onshore Thailand.

On October 21, 2005, Pan Orient acquired approximately 92 percent of the issued and outstanding shares of Tiger. The remaining 8 percent of Tiger shares were acquired early in the first quarter of 2006, in exchange for 319,163 Pan Orient common shares, under the compulsory acquisition provisions contained in the Quebec Companies Act, and the Tiger shares were delisted from TSX venture exchange. Included on the Company's 2005 balance sheet is a non-controlling interest value related to the final 8 percent of shares that were acquired in January 2006.

ANDORA ACQUISITION

The Company has entered into a number of agreements which will result in: (i) the disposition of the Company's Canadian oil and natural gas properties (Sawn Lake assets) in exchange for 10,000,000 shares of Andora Energy Corporation ("Andora"); (ii) the Company subscribing for 4,981,481 Andora common shares for \$6,275,000 cash; and (iii) the Company acquiring a minimum additional 6,618,519 (maximum 13,370,152) Andora common shares from existing Andora common shareholders, at \$1.35 per Andora share, payable in cash (to a maximum of 25%) and Pan Orient shares with a deemed value of \$3.75 per share. Andora is a private oil and gas company with oil sand leases in the Sawn Lake area of Northern Alberta. The Company's 100% owned subsidiary (Pan Orient Energy Ltd.) and Andora are scheduled to amalgamate, immediately prior to which time all of Pan Orient Energy Ltd.'s remaining assets will be transferred to the Company. The transactions and amalgamation are scheduled to close in the third quarter of 2006 and are subject to regulatory and shareholder approval. As a result of these transactions the Company will own a minimum of 51%, maximum 67%, of the issued and outstanding shares of Andora.

LIQUIDITY

At June 30, 2006, Pan Orient held over \$30.3 million of available cash. Since that time, the Company has completed the Andora share subscription for \$6,275,000 and has made the offer to existing Andora shareholders, in which the Company has a maximum cash exposure of approximately \$4.2 million, if the maximum 67% ownership of Andora is met and Andora shareholders elect the maximum 25% cash payment (as opposed to Pan Orient shares). If Pan Orient receives only 51% of the outstanding Andora shares, for which it currently has firm binding lockups, Pan Orient's cash exposure will be to a maximum of approximately \$2.0 million. Following the completion of all Andora transactions, Pan Orient will have, at a minimum, approximately \$20 million cash available for the funding of:

- continuation of the Phase 1 seven well drill program in Thailand;
- the proposed Phase 2, 15-20 well drill program scheduled to begin late in 2006;
- the Company's proposed three year firm work program on a new Thai concession that has been bid on (contingent on the pending award);
- the potential exercise of 2,250,000 Andora warrants for \$3,600,000 (\$1.60 per share). These warrants were received in conjunction with the 4,981,481 Andora common share subscription; and
- continued new venture activities focused on Thailand, India, Indonesia, and China.

If the Company requires additional capital beyond its existing cash, it will likely be sourced through additional equity financing.

The Company is listed on the TSX Venture Exchange. The fully-diluted number of common shares outstanding at the following dates were:

<u>Shares Outstanding</u>	August 30 2006	June 30 2006
Common shares	35,799,620	35,799,620
Employee stock options	3,393,150	3,393,150
Underwriter compensation options	240,000	240,000
Fully-diluted shares outstanding	39,432,770	39,432,770

BUSINESS RISK

Companies engaged in the oil and gas industry are exposed to a number of business risks, which can be described as operational, financial and political risks, many of which are outside of Pan Orient's control. More specifically these risks include risks of economically finding reserves and producing oil and gas in commercial quantities, marketing the production, commodity prices, environmental and safety risks, and risks associated with the foreign jurisdiction in which it operates. In order to mitigate these risks, the Company has an experienced base of qualified personnel, technical and financial in both Canada and Thailand, and maintains an insurance program that is consistent with industry standards. Further, the Company has focused its foreign operations in a known hydrocarbon basin in a jurisdiction that has previously established long-term oil and gas ventures with foreign oil and gas companies.

ADDITIONAL INFORMATION

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

NOTICE TO READER

Management has compiled the unaudited interim consolidated financial information of Pan Orient Energy Corp. consisting of the interim consolidated Balance Sheets at June 30, 2006 and the interim consolidated Statements of Loss and Deficit and interim consolidated Statements of Cash Flows for the three and six month periods ended June 30, 2006 and 2005. Please note the interim financial statements have not been reviewed or audited by external auditors.



PAN ORIENT ENERGY CORP.

650, 101 - 6th Avenue SW, Calgary Alberta Canada T2P 3P4