



PAN ORIENT ENERGY CORP.

2007 MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is prepared effective August 30, 2007, and should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the six months ended June 30, 2007 and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2006. 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 exploration of oil and natural gas.

Selected Quarterly Information

	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues								
Oil - Thailand	\$ 2,811,536	1,572,582	430,609	263,586	265,171	297,081	274,963	-
Royalties - Thailand	(264,804)	(119,486)	(52,150)	(36,808)	(37,247)	(53,075)	(33,288)	-
Interest - Canada	98,215	125,065	206,949	206,823	247,971	43,084	61,523	54,472
	<u>2,644,947</u>	<u>1,578,161</u>	<u>585,408</u>	<u>433,601</u>	<u>475,895</u>	<u>287,090</u>	<u>303,198</u>	<u>54,472</u>
Expenses								
Stock based compensation	237,199	641,534	518,412	254,331	677,024	323,354	101,553	96,920
General and administrative	764,776	550,188	710,536	390,792	432,441	209,491	173,199	110,776
Foreign new ventures								
expenditures	-	40,000	126,297	-	-	-	257,601	-
DD & A	1,164,110	789,733	444,311	135,205	120,738	143,609	98,054	2,943
Production and operating	866,345	546,050	535,360	64,642	115,033	109,171	67,969	-
Non-controlling interest	3,865	(127,565)	(29,139)	-	-	-	4,440	-
Interest on convertible								
debentures	-	-	-	-	-	-	4,017	-
Foreign exchange loss (gain)	807,364	(88,357)	(201,477)	(20,394)	51,653	29,093	-	-
Future income tax increase (reduction)	39,850	(70,450)	(1,072,000)	-	-	-	-	-
	<u>3,883,509</u>	<u>2,281,133</u>	<u>1,032,300</u>	<u>824,576</u>	<u>1,396,889</u>	<u>814,718</u>	<u>706,833</u>	<u>210,639</u>
Net loss	\$ (1,238,562)	(702,972)	(446,892)	(390,975)	(920,994)	(527,628)	(403,635)	(156,167)
Loss per share	\$ (0.03)	(0.02)	(0.01)	(0.01)	(0.03)	(0.02)	(0.02)	(0.01)

OIL AND GAS ASSETS

The Company's principle oil and gas assets currently consist of:

- a 60 percent working interest in 952,000 acres of exploration and production licenses onshore Thailand. This is held in 2 concessions; L44/43 which currently has oil production and L33/43 which currently has no production. Pan Orient is the operator of both of these concessions. As per all Thai concession agreements, a 50% acreage relinquishment is required at the end of year four. In compliance, the Company relinquished approximately half of these two concessions in July 2007, to now hold 952,000 gross acres. This had no impact on the prospectivity of the Company's Thai acreage as no future drilling would have been performed in the relinquished areas.

- a 100 percent working interest, with Pan Orient as operator, in the 1,000,000 L53/48 acre concession onshore Thailand. This Concession was awarded to the Company in January 2007 and currently has no production or recognized reserves.
- a 67 percent ownership of Andora Energy Corporation (“Andora”), a private oil and gas company with oil sand leases in Alberta containing probable + possible recoverable reserves of 179 million barrels of oil, as defined by an independent third party engineering firm. This property currently has no production.

HIGHLIGHTS

The Company recorded oil revenues of \$2,811,536 for the three months ended June 30, 2007, an increase of 79% from the \$1,572,582 in oil revenues in the first quarter of 2007. The second quarter 2007 oil revenues were more than 10 times the same period in 2006, and the first half of 2007 oil sales of \$4,384,118 were 680% higher than the \$562,252 recorded in the first half of 2006. Oil production, net to Pan Orient, averaged 501 bbl/d in the second quarter, up from 344 bbl/d, in the first quarter of 2007 due to the successful NS-4 well that was put on production in June. Oil production was 48 bbl/d in the second quarter of 2006, and 54 bbl/d for the first half of 2006. Oil prices averaged \$61.62/bbl in the second quarter of 2007 (2006 – \$60.58) and \$57.27 for the year to date (2006 - \$57.92). Oil revenues are expected to continue to rise substantially as the Company continues its 2 rig drill program throughout the remainder of the year, and into 2008.

Royalty expenses on the Thailand oil production were \$264,804 for the second quarter of 2007 (up from \$37,247 in the same period of 2006), or about 9.4% of sales. 2007 year to date royalties totaled \$384,290 (2006 – \$90,322) or about 8.8% of oil revenues. The included government royalty is 5% of gross production up to 2,000 bbl/d, and increases to 6.25% for gross production between 2,000 and 5,000 bbl/d. Also included in royalty expense is a 10% gross overriding royalty on the bulk of the production within the Wichian Buri oil field. Drilling outside of this overriding royalty encumbered area is only subject to the government royalty. The Company’s recent production success in the Na Sanun and Na Sanun East oil fields are not subject to the gross overriding royalty, and as such royalty rates are expected to diminish as drilling continues in these areas.

Interest income on the Company’s cash balances was \$98,215 for the second quarter of 2007 (2006 - \$247,971) and \$223,280 for the first six months of 2007 (2006 - \$291,055).

Non-cash stock based compensation expenses totaled \$237,199 for the 3 months ended June 30, 2007 (2006 - \$677,024) and \$878,733 for the six month period (2006 - \$1,000,378). As required under Canadian GAAP, the Company uses the fair value method to account for its stock based compensation. Included in the 2007 first half non-cash based stock compensation expense is \$300,000 related to stock options granted in Andora, entitling the holders to acquire common shares of Andora.

General and administrative expenses (G&A) for the second quarter of 2007 totaled \$764,776, up from \$432,411 in the same period of 2006. Six month G&A totaled \$1,314,964 in 2007, as compared to \$641,932. The 2007 G&A levels reflect the additional Thai staff and administrative costs relating to the increased levels of drilling and production activities that did not exist during the first half of 2006. The Company does not anticipate any significant G&A increases during 2007, as it feels it is adequately staffed for planned growth.

Thailand production and operating costs totaled \$866,345 for the second quarter of 2007 (2006 - \$115,033) and \$1,412,395 for the first six months of the year (2006 – \$224,204). Continuing operating costs, being those net of workovers and other non-recurring items, continued to fall as production rises, as a significant portion of the Thailand operating costs are fixed including expatriate production managers salaries. These operating costs were \$13.92/bbl in the second quarter of 2007, down from \$14.98/bbl in the first quarter of 2007, and \$22.98/bbl in the first six months of 2006.

Depletion, depreciation and accretion (DD&A) totaled \$1,164,110 in the second quarter of 2007 (2006 - \$120,738), bringing the year to date DD&A to \$1,953,843 (2006 - \$264,347). The largest component was depletion of \$1,100,000 (\$24.10/bbl) in the quarter and \$1,850,000 (\$24.16) for the first six months, relating to Thailand oil production. The Company's depletion rate is high due to the continued production success of the Na Sanun (NS-4) and Na Sanun East (POE-9) oil fields, as they were attributed relatively low proven reserves in the 2006 year end reserve report. With the expected production success and drilling success in the Thailand appraisal program, the Company anticipates additional proved reserves being assigned to the Thailand holdings leading to a potentially lower depletion rate per barrel.

The Company expensed \$40,000 in foreign new ventures expenditures in the first half of 2007 (2006 - \$0). These expenses relate to costs incurred pursuing development activities in India.

As a result of holding both Thai Baht and US dollar currency and working capital, the Company posted a foreign exchange loss of \$807,364 in the second quarter of 2007 and \$719,007 for the year to date. The loss is largely unrealized and results from the Canadian dollar appreciating against both the Baht and the US dollar by 7% and 9%, respectively, in the second quarter of 2007.

The Company recorded a loss for the six months ended June 30, 2007, of \$1,941,534 (2006 - \$1,448,622) including a loss of \$1,238,562 for the second quarter of 2007 (2006 - \$920,994). The losses are attributable to the non-cash stock based compensation expenses, DD&A and unrealized foreign exchange losses.

As a result of increased production levels and revenues, the Company generated positive cash flow from its consolidated operating activities of \$1,013,826 for the three months ended June 30, 2007 bringing the year to date, six month total to \$1,455,749.

During the quarter the Company spent approximately \$5.3 million on petroleum and natural gas property additions including the L44/43 seismic program to June 30, 2007 and the drilling of three wells (one on production, one D&A, and one currently suspended awaiting deepening).

LIQUIDITY

At June 30, 2007, Pan Orient had approximately \$7.0 million of working capital. Approximately \$0.3 million of this working capital resides inside Andora and is available for its heavy oil program. On July 13, 2007, Pan Orient closed a 1.5 million share private placement for net proceeds of \$6.0 million. These funds and the remaining \$6.7 million of June 30 working capital are inside Pan Orient and its Thai subsidiaries and are available for:

- continuous drilling onshore Thailand utilizing the 2 drill rigs Pan Orient has under long-term contract;
- the potential exercise by the Company of 2,250,000 Andora warrants for \$3,600,000 (\$1.60 per share). These warrants were received in 2006 in conjunction with the 4,981,481 Andora common share subscription;
- continued new venture activities focused on Thailand, India, Indonesia, and China; and
- the September, 2007, 260 square kilometre 3D seismic acquisition on the Company's 100% owned L53/48 onshore Thailand concession.

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

Included in the accounts receivable balance of \$3.7 million are cash calls to the Company's joint venture partner, of \$1.3 million, the bulk of which was collected subsequent to quarter end.

In addition to the \$7.0 million of working capital the Company has \$5.7 million of other cash deposits, generally securing longer term projects. One such being a \$1.87 million USD relating to a new concession agreement the Company signed on January 9, 2007 with the government of Thailand for block L53/48, located onshore Thailand. The concession agreement includes a minimum three year first exploration phase commitment of \$1,870,000 USD, for which the Company posted a standby letter of credit, secured by cash, in the first quarter of 2007. Also included in deposits is \$2.3 million in cash, securing a standby letter of credit posted in favour of the seismic contractor, representing Pan Orient's share of the L44/43 3D seismic shoot that was completed in August, 2007. The remainder of the deposits of \$1.4 million generally relate to customs deposits, approximately half of which the Company expects will be refunded over the next year. Also the Company holds inventory, included in capital assets, of approximately a million dollars in casing and pumps at the end of June 2007 in conjunction with the current drilling program.

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 2007	June 30 2007
Common shares	41,634,842	40,134,842
Employee stock options	3,793,150	3,793,150
Underwriter compensation options	162,000	162,000
Fully-diluted shares outstanding	45,589,992	44,089,992

SUBSEQUENT EVENTS

On May 23, 2007, the Company's subsidiary, Andora Energy Corporation, announced it had entered into a letter of intent to combine with Signet Energy Inc. ("Signet"), a private oil and gas company holding heavy oil interests in Sawn Lake, Alberta. The combination will be effected by way of a plan of arrangement under the *Business Corporations Act* (Alberta) whereby the security holders of Signet will receive, in aggregate, 17,500,000 common shares of Andora (subject to adjustment) with a deemed value of \$50,000,000. The combination is subject to several conditions, including the approval of Signet security holders (for which a meeting is scheduled for September 11, 2007), and if successful would decrease Pan Orient's current ownership of Andora from 67% to approximately 48%. Pan Orient also holds warrants to purchase additional common shares of Andora which, if exercised, would result in ownership of 49.4% of the combined company.

On July 13, 2007, the Company issued, by way of a non-brokered private placement, 1.5 million common shares at \$4.25 per share, for gross proceeds of \$6,375,000 (\$6,056,250 net of finders fee paid).

CHANGE IN ACCOUNT POLICIES - FINANCIAL INSTRUMENTS

Effective January 1, 2007, Pan Orient adopted new Canadian accounting standards relating to accounting for financial instruments. Under the new standards, Pan Orient must recognize all financial instruments and non-financial derivatives, including embedded derivatives, as assets or liabilities and report them in its financial statements. Fair value accounting is deemed to be the most relevant measure for financial instruments and the only relevant measure for derivative financial instruments. Fair value accounting involves recording the financial instrument in the balance sheet as either an asset or a liability with changes in the fair value reflected in net earnings, regardless of whether the change in fair value has been realized or not. In addition, the new standards provide that hedge accounting treatment is available for items designated as being part of an effective hedging relationship. There was no impact on the financial statements as a result of adopting the new standards.

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, 2007 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, 2007 and 2006. Please note the interim financial statements have not been reviewed or audited by external auditors.



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