



PAN ORIENT ENERGY CORP.

2007 MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is prepared effective November 30, 2007, and should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the nine months ended September 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	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues								
Oil - Thailand	\$ 4,213,990	2,811,536	1,572,582	430,609	263,586	265,171	297,081	274,963
Royalties - Thailand	(241,511)	(264,804)	(119,486)	(52,150)	(36,808)	(37,247)	(53,075)	(33,288)
Interest - Canada	117,656	98,215	125,065	206,949	206,823	247,971	43,084	61,523
	<u>4,090,135</u>	<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>
Expenses								
Stock based compensation	235,183	237,199	641,534	518,412	254,331	677,024	323,354	101,553
General and administrative	763,766	764,776	550,188	710,536	390,792	432,441	209,491	173,199
Foreign expenditures	-	-	40,000	126,297	-	-	-	257,601
DD & A	1,565,965	1,164,110	789,733	444,311	135,205	120,738	143,609	98,054
Production and operating	411,053	866,345	546,050	535,360	64,642	115,033	109,171	67,969
Non-controlling interest	(22,800)	3,865	(127,565)	(29,139)	-	-	-	4,440
Interest on convertible debentures	-	-	-	-	-	-	-	4,017
Foreign exchange loss (gain)	1,079,351	807,364	(88,357)	(201,477)	(20,394)	51,653	29,093	-
Future income tax increase (reduction)	(28,158)	39,850	(70,450)	(1,072,000)	-	-	-	-
	<u>4,004,360</u>	<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>
Net income (loss)	\$ 85,775	(1,238,562)	(702,972)	(446,892)	(390,975)	(920,994)	(527,628)	(403,635)
Income (loss) per share	\$ 0.00	(0.03)	(0.02)	(0.01)	(0.01)	(0.03)	(0.02)	(0.02)

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 working interest 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 acre L53/48 concession onshore Thailand. This Concession was awarded to the Company in January 2007 and currently has no production or recognized reserves.
- a 53.5 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 234 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 \$4,213,990 for the three months ended September 30, 2007, an increase of 50% from the \$2,811,536 in oil revenues in the second quarter of 2007. The third quarter 2007 oil revenues were approximately 16 times those recorded in the same period of 2006, and the first nine months of 2007 oil sales of \$8,598,108 were 940% higher than the \$825,838 recorded in the first nine months of 2006. Oil production, net to Pan Orient, averaged 722 bbl/d in the third quarter, up from 501 bbl/d, in the second quarter of 2007, due to the successful NS3-D1 well that was put on production in September. Oil production was 50 bbl/d in the third quarter of 2006, and 53 bbl/d for the first nine months of 2006. Oil prices averaged \$63.46/bbl in the third quarter of 2007 (2006 – \$57.80) and \$60.14 for the year to date (2006 - \$57.69). The relatively modest production in the quarter of 722 bbl/d was enough for the Company to post its first profitable quarter, with net income of \$85,775. Since September 30, the Company has drilled and tested several significant wells, and has production capacity of over 3,600 bbl/d, net to Pan Orient. 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 \$241,511 for the third quarter of 2007 (up from \$36,808 in the same period of 2006), or about 5.7% of sales. 2007 year to date royalties totaled \$625,801 (2006 – \$127,130) or about 7.3 percent 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 and 10% for gross production between 5,000 and 10,000 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 over riding royalty.

Interest income on the Company’s cash balances was \$117,656 for the third quarter of 2007 (2006 - \$206,823) and \$340,936 for the first nine months of 2007 (2006 - \$497,878).

Non-cash stock based compensation expenses totaled \$235,183 for the 3 months ended September 30, 2007 (2006 - \$254,331) and \$1,113,916 for the nine month period (2006 - \$1,254,709). As required under Canadian GAAP, the Company uses the fair value method to account for its stock based compensation. Included in 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 third quarter of 2007 totaled \$763,766, up from \$390,792 in the same period of 2006, and unchanged from the second quarter of 2007. Nine month G&A totaled \$2,078,730 in 2007, as compared to \$1,032,724 in 2006. The 2007 G&A levels reflect additional Thai staff and administrative costs relating to the increased levels of drilling and production activities that did not exist during the first nine months of 2006. The Company does not anticipate any significant G&A increases based on existing Thai concessions, as it feels it is adequately staffed for planned growth.

Thailand production and operating costs totaled \$411,053 for the third quarter (2006 - \$64,642) and \$1,823,448 for the first nine months of the year (2006 – \$288,846). Operating costs per barrel continue to fall as production rises, as a significant portion of the Thailand operating costs are fixed including expatriate

production managers salaries. The posted operating costs of \$6.19/bbl in the third quarter of 2007, are downsubstantially from \$13.92/bbl in the second quarter of 2007, and \$20.17/bbl in the first nine months of 2006.

Depletion, depreciation and accretion (DD&A) totaled \$1,565,965 in the third quarter of 2007 (2006 - \$135,205), bringing the year to date DD&A to \$3,519,808 (2006 - \$399,552). The largest component was depletion of \$1,530,000 (\$23.04/bbl) in the quarter and \$3,380,000 (\$23.64) for the first nine months, relating to Thailand oil production. The Company's depletion rate is high due to the continued production success of the Na Sanun and Na Sanun East 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 in 2008.

The Company expensed \$40,000 in foreign new ventures expenditures in the first nine months 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 \$1,079,351 in the third quarter and \$1,798,358 for the year. The loss is largely unrealized and results from the Canadian dollar appreciating against both the Baht and the US dollar by approximately 7.5% in the third quarter of 2007, and approximately 5% and 17% appreciation against the Baht and US dollar, respectively, year to date.

The Company recorded a loss for the nine months ended September 30, 2007, of \$1,855,759 (2006 - \$1,839,957). The losses are attributable to the non-cash stock based compensation expenses, DD&A and unrealized foreign exchange losses. The Company posted a profit of \$85,775 for the third quarter.

The Company does not expect to be materially taxable in 2007. The Company expects that it will pay both a Thai income tax, at a 50% rate, and a Thai special remuneratory benefit tax on profits, at sliding scale rates, in 2008 and beyond.

As a result of increasing production levels and revenues, the Company generated positive cash flow from its consolidated operating activities of \$2,455,316 for the three months ended September 30, 2007 bringing the year to date, nine month total to \$3,911,065.

During the quarter the Company spent approximately \$9.0 million on petroleum and natural gas property additions including the completion of the L44/43 seismic program (\$1.0mm), the 100% L53/48 seismic program to September 30, 2007 (\$3.0mm), the drilling of six wells and significant inventory additions (\$1.1mm) in preparation for continued drilling.

ANDORA ACQUISITION OF SIGNET ENERGY INC.

On September 19, 2007, the Company's subsidiary, Andora, completed a business combination with Signet Energy Inc. ("Signet"). Signet was a private oil and gas company holding heavy oil interests in Sawn Lake, Alberta. The combination was effected by way of a plan of arrangement under the Business Corporations Act (Alberta) whereby the security holders of Signet received, in aggregate, 10,741,128 common shares of Andora with a deemed value of \$17,185,804. Certain shareholders of Signet exercised their right to dissent to the combination, and as such Andora has recorded a liability of \$3,716,675. In addition to Signet's heavy oil interests, Andora received Signet's working capital, comprised mainly of cash, of \$3.1 million.

In connection with the transaction, Andora also issued 310,000 share purchase warrants, to an existing third party Signet warrant holder, with an exercise price of \$2.86 per Andora share, expiring November 17, 2008. The fair estimated value of these warrants was not significant on the combination date.

As a result of the Signet transaction, Pan Orient's ownership level of Andora fell from 67% to 53.5%. Pan Orient has warrants to purchase shares of Andora which, if exercised would increase Pan Orient's ownership to approximately 55.4%.

LIQUIDITY

At September 30, 2007, Pan Orient's consolidated accounts had approximately \$4.3 million of net positive working capital including \$9.6 million of cash. With current production capacity of over 3,600 bbl/d net to Pan Orient, the companies Thailand activities are self funding and generating excess cash based on current operating levels. Existing working capital and cash flows 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;
- completion of the 220 square kilometre 3D seismic acquisition on the Company's 100% owned L53/48 onshore Thailand concession.
- drilling on the 100% owned L53/48 concession

On November 14, 2007, Pan Orient closed a 3.5 million share financing for net proceeds of \$30.1 million. These funds when added to existing working capital, and cash flows, position Pan Orient well to pursue new ventures activities focused on South and South East Asia.

Andora has a September 30, 2007 working capital deficit of \$0.8 million, including both cash of \$3.1 million, and an expected payable to Signet dissenting shareholders of \$3.7 million. If Andora obtains additional financing, it will likely be sourced through Pan Orient exercising its warrants (for \$3.6 million as outlined above) or from additional equity financing.

In addition to the \$4.3 million of consolidated working capital, the Company has \$6.3 million of other cash deposits securing longer term projects. One such cash deposit being \$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 \$2.5 million in cash, securing a standby letter of credit posted in favour of the seismic contractor, representing Pan Orient's share of the L53/48 3D seismic shoot that was completed in October, 2007. The remainder of the deposits of \$1.9 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 \$2 million in casing and pumps at the end of September 2007 to be used 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>	November 30 2007	September 30 2007
Common shares	45,146,842	41,634,842
Employee stock options	3,793,150	3,793,150
Underwriter compensation options	150,000	162,000
Fully-diluted shares outstanding	49,089,992	45,589,992

SUBSEQUENT EVENTS

On November 14, 2007, the Company issued, by way of a brokered private placement, 3.5 million common shares at \$9.15 per share, for gross proceeds of \$32,025,000 (\$30,103,500 net of commissions 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 September 30, 2007 and the interim consolidated Statements of Operations and interim consolidated Statements of Cash Flows for the three and nine month periods ended September 30, 2007 and 2006. Please note the interim financial statements have not been reviewed or audited by external auditors.



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