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THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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07.27.09: OIL & GAS EXPLORATION & PRODUCTION REPORT

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Pacific Asia Petroleum, Inc. (PFAP.OB)



FRANK C. INGRISELLI, President and CEO of Pacific Asia Petroleum, Inc., has 30 years' experience in the energy industry and has been a pioneer in the Chinese energy market since 1979. Before founding Pacific Asia Petroleum, Inc., Mr. Ingriselli spent 23 years at Texaco in a number of diverse senior executive positions. He retired in late 2001 as President of Texaco Technology Ventures, where he oversaw Texaco's multi-billion dollar global technology initiatives and investments. Among Mr. Ingriselli's achievements at Texaco was the 1983 signing of the first successful international oil contract in China, which continues to generate over \$2 billion a year in revenues. Mr. Ingriselli also held the position of President of Texaco International Operations and

served as CEO of the Timan Pechora Company, which was owned by Texaco, Exxon, Amoco, Norsk Hydro and LukOil, and was developing the largest international investment in Russia at that time. Mr. Ingriselli still sits on the Advisory Board of the Eurasia Foundation, a Washington D.C.-based non-profit that funds programs that build democratic and free market institutions in the new independent states of the former Soviet Union. Mr. Ingriselli graduated from Boston University in 1975 with a Bachelor of Science degree in Business Administration. He also earned a Master of Business Administration degree from New York University in both Finance and International Finance in 1977 and a Juris Doctor degree from Fordham University School of Law in 1979.

SECTOR — OIL & GAS DRILLING & EXPLORATION

(AMZ605) **TWST:** Tell us about Pacific Asia Petroleum and some of the things you are doing at the present time?

Mr. Ingriselli: We started the company a little over three years ago as a private enterprise with a plan to develop small, low-risk, high-return oil and gas type projects in China. Since then, we have achieved several milestones. The first was raising about \$5 million in private capital. Then a little over two years ago, we went public and raised an additional \$17 million. Why did we start this company? I spent 23 years at Texaco in many senior positions, including the role of President of Texaco International, but what had the biggest impact on my career and was the foundation for the startup of Pacific Asia were the four years I spent starting in 1979 in China negotiating the first successful foreign oil contract there. That venture today, 26 years later, is still producing enormous cash for its owners. This proved that energy ventures in China work and that the Chinese live up to their commercial commitments. I retired in 2001 as a result of the merger between Chevron and Texaco. After doing some consulting, I decided to go back into this business and do what I did best for Texaco, which was identifying, negotiating and operating high-return projects for the company that contributed significant cash earnings to the bottom line for the company. So we started Pacific Asia and embarked on a portfolio approach that includes short-term onshore oil field development to bring in early cash flow with low capital exposure and balance that with longer-term sustainable natural gas projects in the field of coal bed methane.

TWST: How has the economic downturn impacted Pacific Asia over the past year?

Mr. Ingriselli: When we started the company, oil was trading at approximately \$50 a barrel. Over the last three years we have seen oil soar well above \$100 and then come back down to about \$50 several months ago. Currently, it has been trading between \$60 to \$70. At the same time, we saw the financial markets collapse. We have a balance sheet that's all cash and includes our oil and gas assets. We have no borrowings, no debt and all of our assets are unencumbered. This strong balance sheet has sustained our company. So you really get a win-win situation with our company as we don't have to go out to Wall Street at this difficult time to borrow the money, and if we need any capital we will consider bringing in partners to disproportionately cover any of our capital needs. This period has also created very attractive deals. With our strong balance sheet and leveraging that position, we were able to recently start our enhanced oil recovery production and production business. As recently announced, we will start working on hundreds of wells. So the current economic environment has provided great opportunities for Pacific Asia and we have a great management team to execute on these new initiatives.

TWST: Would you tell us a bit about coal bed methane and how it compares to conventional natural gas exploration and production?

Mr. Ingriselli: Historically, when I was in Texaco, we believed very strongly that we needed to diversify our energy sources. So over a decade ago, we decided to get into the coal bed methane business. It's a great business as you can extract natural gas from these coalfields at a cost that could provide a very good margin opportunity to make a profit. At Texaco we signed the first foreign

contract to develop coal bed methane resources in China. In this type of operation, you drill into the seams of existing coalfields. The quality of the gas is actually better than traditional natural gas. Coal bed methane deposits are shallower than most traditional natural gas fields. Also there have been great strides in horizontal well drilling technology which can produce the gas with even more economic efficiency. We acquired a 100% interest in the Zijinshan coal bed methane 175,000 acre block, which was awarded by the Chinese government to us in 2008. This asset is estimated to have 3.8 trillion cubic feet of potential gas resources and is located in the Shanxi Province in an area called the Ordos Basin. The Ordos Basin is the heart of natural gas industry in China with an estimated gas resource potential of approximately 50 trillion cubic feet of gas. We are also blessed that very nearby there are two major pipelines that have been built and are fully operational. Given all these factors, we feel we are in the right place at the right time. The natural gas industry in China continues to aggressively grow, and the government has a target to move gas from a 3% to a 10% mix of the energy component. China continues to have positive GDP growth, with some forecasters putting the number at nearly 8% growth. We are in not only the right country, but also the right industry, natural gas.

TWST: What do you see as the pricing supply-demand dynamics in the political context that will have an impact on Pacific Asia Petroleum as you look at your strategies for the next year or so?

Mr. Ingriselli: We have two areas where we are focused — onshore oil production and natural gas. We tested our onshore oil project at \$45 a barrel, and that provides a very good return on investment. We feel very comfortable if oil fell even well below \$40. Likewise, current natural gas prices in China provide us the ability to make a good profit. At today's levels for oil and gas, we still see about a 50% margin for our operations. Regarding political risk, I think that's minimal in China. We are sitting in a country, China, that is the second biggest importer of oil in the world and the fastest growing economy. In our ventures, the Chinese government has provided significant incentives for us such as reduced tax rates and commodity price uplifts. The Chinese government continues to honor all their energy contracts and we have support and approvals from the highest levels of government. We are confident that we are in the right place at the right time.

TWST: Now from your experience in the industry and looking at all of the dynamics today, what are your thoughts about consolidating with other companies in China?

Mr. Ingriselli: We are currently discussing consolidation opportunities with several players inside and outside China. We are a small cap niche player, and one that knows how to do business there. We are continuously looking at other companies that can bring additional value to our operations. So M&As are a very important part of our growth strategy going forward.

TWST: How many other oil or oil and gas exploration companies you are involved with in the region? Do you share seismic data with each other?

Mr. Ingriselli: We don't share each other's seismic or other technical data. There are major players in the China coal bed methane industry. These are companies like Shell, Total, Chevron and Arrow, along with all the China national oil companies like

CNPC. All of these companies are our neighbors and may become our partners. While we compete with them, we also work with them towards a common goal, which is to economically develop the oil and gas industry in China so that all parties are winners.

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TWST: What sort of production are you anticipating over the next two to three quarters?

Mr. Ingriselli: We recently announced that we would begin oil production before the end of this year. At present, we would estimate that our production in 2010 will be approximately half a million barrels.

TWST: Are there any worries? What are the main areas of concern for you?

Mr. Ingriselli: We feel very comfortable with the operating environment in China. The Chinese bureaucracy can sometimes be challenging, but we feel we know how to maneuver there. They need oil and we are being encouraged to develop, so I don't see much risk there. If oil prices were to collapse, I think we can still make a profit even at \$25 a barrel. Certainly the world financial crisis has provided challenges, but we have no debt in our company and plan to focus on our current assets, start production and cash flow, and grow our company that way. Currently, we are fortunate to be sitting on lots of cushion in terms of margin.

TWST: What type of corporate culture have you tried to develop in Pacific Asia? What do you consider to be the strengths and advantages of your team?

Mr. Ingriselli: We are entrepreneurial and efficient. We don't have a large number of employees. We are a globally experienced natural resources team that has successfully done it before. We encourage a free and unencumbered flow of information and ideas among our management, technical and operating teams. Most of our people are in China, where our operations are based, and we have few expatriates there. We try to stay focused and entrepreneurial and reward our people with risk-based incentives. If the company performs well, we all, and I emphasize all, get the benefit of that.

TWST: Are there any significant changes you are contemplating in the near-term as far as your balance sheet structure is concerned?

Mr. Ingriselli: In this challenging financial environment we are not interested in issuing any equity right now. This is our plan notwithstanding that our stock price has improved to \$2 a share. We believe we are significantly undervalued based on the assets we have. So as we need capital, we will instead bring in technically and financially competent partners who will not only add operational value but also financial value to the bottom line.

TWST: In your discussions with the investment community, are there any recurring questions or misperceptions that you encounter? Do they understand the Pacific Asia Petroleum story?

Mr. Ingriselli: I think they understand it for the most part. What everybody needs in this world is a little patience. Investors have been patient with our company over the last couple of years. Their patience is now paying off. We are now on the threshold of delivering for our shareholders and investors the value we planned. We are trying to get that message out there as we are sitting on extraordinary valuable assets, but the valuations we are getting in the market don't reflect that value. We need to do a better job of explaining that value.

TWST: What are the key events that analysts should focus on as they track your performance?

Mr. Ingriselli: What they should look at is our ability to deliver on what we've said and promised. We have stated that we would start production and revenues before the end of this year, and that we expect will happen. Also seeing how we bring in other partners, adding value to the company as we start on our path to commercialize our coal bed methane and tight gas sand asset.

TWST: What would compel an investor not only to take the time to review Pacific Asia, but to include it as part of his/her current portfolio and long-term investment strategies?

Mr. Ingriselli: The story of Pacific Asia Petroleum is that we have the management, technical and operational wherewithal to do what we say we will do. We've done it before successfully at one of the largest international energy companies in the world. Currently, our activities are concentrated in China, the fastest growing economy and the second largest importer of oil in the world. You are getting a US publicly traded management team that has done business successfully in China over the last 30 years, and who are commercializing assets with significant short-term value with a tremendous upside. Also our company has been rated in the top 3% in terms of financial accountability, as reported by *Forbes* magazine's list of the "100 Most Trustworthy Companies."

TWST: What kind of an investor relations program do you have in place?

Mr. Ingriselli: We've been actively working on this part of our business. We have both an investor relations firm and a separate public relations firm. Our public relations firm is working with us to develop and mold our messaging, to get us on the road, to give speeches at financial institutions, do institutional road shows and

take advantage of appropriate venues to talk about our company. We are going to aggressively expand our activities in this area so that we can tell our story. We are also improving the interactive nature of our Web site.

TWST: In summary, what would be the key investor message that you would like to convey?

Mr. Ingriselli: With Pacific Asia Petroleum, you get a company that has value generating operations in the fastest-growing economy which is also the second most thirsty energy country in the world. With Pacific Asia Petroleum, we have a team that has done it before successfully for Texaco and others, and we are committed to taking the trust of our shareholders and investors, and developing our assets in a most efficient and value-generating manner. We are sitting on assets that have enormous value and we intend to deliver that value to the bottom line, as we grow from a small micro cap energy company into a thriving high growth and profitable energy company.

TWST: Is there anything you would like to add?

Mr. Ingriselli: The only additional item thing I would add is that we have an outstanding board of directors, the majority of whom are independent. For example, we have the former CEO of General Motors Corporation, the former Treasurer of Texaco Inc., the former Chief Compliance Officer and head of Investor Relations for Texaco, and a proven oil and gas operating executive who was a key executive in delivering to a small cap energy company. These directors were major players in the energy and manufacturing industry, and will continue to provide valuable guidance as we move the company forward. We take their wise counsel very seriously. People investing in our company are investing in our management team and its ability to deliver results with our assets. What they are getting is a team that has done it successfully before and is committed to doing it again for the shareholders.

TWST: Thank you. (KL)

FRANK C INGRISELLI
President & CEO
Pacific Asia Petroleum, Inc.
250 East Hartsdale Avenue
Suite 27
Hartsdale, NY 10530
(914) 472-6070
(914) 472-6793 — FAX
www.papetroleum.com
e-mail: info@papetroleum.com