PAN ORIENT ENERGY CORP.

2005 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

Management is responsible for the integrity and objectivity of the financial statements. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined in the notes to the consolidated financial statements.

Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The consolidated financial statements have been examined by external auditors. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition of the Company.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

(*signed "Jeff Chisholm"*)
Jeff Chisholm
President & Chief Executive Officer

(*signed "Jason Bednar"*)
Jason Bednar
Vice President, Finance & Chief Financial Officer

May 1, 2006

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Pan Orient Energy Corp. as at December 31, 2005 and the consolidated statements of loss and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2004 and for the period from incorporation on April 21, 2004 to December 31, 2004 were audited by another firm of chartered accountants who expressed an opinion without reservation on those statements in their audit report dated February 2, 2005.

(*signed "KPMG LLP"*)
KPMG LLP
Chartered Accountants

Calgary, Canada
May 1, 2006

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the financial statements of Pan Orient Energy Ltd. as at and for the period ended December 31, 2004. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements presents fairly, in all material respects, the financial position and cash flows of the Company as at and for the period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

(*signed "Maldaner Crooks Watson"*)
Maldaner Crooks Watson
Chartered Accountants

Calgary, Canada
February 2, 2005

PAN ORIENT ENERGY CORP.

CONSOLIDATED BALANCE SHEETS

	December 31 2005	December 31 2004
ASSETS		
CURRENT		
Cash and cash equivalents	$ 8,702,189	$ 5,589,135
Accounts receivable	199,537	61,737
	8,901,726	5,650,872
Petroleum and natural gas properties (Note 4)	8,638,093	802,549
	$ 17,539,819	**$ 6,453,421**
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 758,974	$ 62,113
Convertible debentures payable	86,162	-
	845,136	62,113
Non-controlling interest (Note 3)	326,740	-
	1,171,876	62,113
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	17,229,589	6,391,308
CONTRIBUTED SURPLUS	683,073	-
DEFICIT	(1,544,719)	-
	16,367,943	6,391,308
Commitments (note 9)		
Subsequent events (note 3 & 10)		
	$ 17,539,819	**$ 6,453,421**

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors

(*signed "Michael Hibberd"*)
Michael Hibberd
Director

(*signed "Gerald Macey"*)
Gerald Macey
Director

PAN ORIENT ENERGY CORP.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Years Ended	
	December 31 2005	**December 31 2004**
REVENUES		
Oil - Thailand	$ 274,963	$ -
Royalties - Thailand	(33,288)	
Interest - Canada	165,885	-
	407,560	-
EXPENSES		
Stock based compensation	683,073	` -
General and administrative	401,619	-
Foreign new ventures expenditures	257,601	-
Depletion, depreciation and accretion	103,940	-
Production and operating	67,969	-
Non-controlling interest	4,440	-
Interest on convertible debentures	4,017	-
	1,522,659	-
NET LOSS FOR THE YEAR	(1,115,099)	-
DEFICIT BEGINNING OF YEAR	-	-
REVERSE TAKE OVER ADJUSTMENT (Note 1)	(429,620)	-
DEFICIT, END OF YEAR	$ (1,544,719)	$ -
LOSS PER SHARE – Basic and Diluted	$ (0.05)	$ -

See accompanying notes to the consolidated financial statements

PAN ORIENT ENERGY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31 2005	December 31 2004
CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net loss for the year	$	(1,115,099)	-
Items not affecting cash			
Stock based compensation		683,073	-
Depletion, depreciation and accretion		103,940	-
Non-controlling interest		4,440	-
		(323,646)	-
Change in non-cash working capital		104,967	376
		(218,679)	376
INVESTING ACTIVITIES			
Petroleum and natural gas properties		(1,143,674)	(802,549)
Acquisition, net of cash acquired		(1,391,565)	-
		(2,535,239)	(802,549)
FINANCING ACTIVITIES			
Issue of common shares, net of share issue costs		5,866,972	6,391,308
		5,866,972	6,391,308
INCREASE IN CASH		3,113,054	5,589,135
CASH, BEGINNING OF YEAR		5,589,135	-
CASH, END OF YEAR	$	8,702,189	5,589,135

See accompanying notes to the consolidated financial statements

1) BASIS OF PRESENTATION

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 as at December 31, 2004 and for the period from incorporation on April 21, 2004 to December 31, 2004, 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 year ended December 31, 2005 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") and as such included in the year ended December 31, 2005 are the accounts of Tiger from October 21, 2005, forward.

2) SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Pan Orient and the accounts of its subsidiaries, all of which are wholly owned except Tiger and its subsidiaries for which Pan Orient owns approximately 92%.

(b) Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and investments in highly liquid short-term deposits with an original maturity date of less than ninety days.

(c) Petroleum and natural gas properties

The Company follows the full cost method of accounting for petroleum and natural gas properties and related expenses in accordance with the guidelines issued by the Canadian Institute of Chartered Accountants, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized and accumulated in country-by-country cost centres. Such costs include royalty acquisition, land acquisition, geological and geophysical, carrying charges of non producing wells and general administrative costs.

Costs associated with the investigating, bidding and acquiring petroleum properties are expensed prior to obtaining a petroleum lease or concession. Costs may be deferred on projects for which a bid is outstanding or for seismic and related costs in an area that the Company has existing plans to bid or negotiate a concession.

Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

The costs in cost centres from which there has been no commercial production are not subject to depletion until commercial production commences. Depletion is provided on costs accumulated using the unit-of-production method. For purposes of the depletion calculation, gross proved oil and gas reserves, as determined by engineering consultants, are used and converted to a common unit of measure based on their approximate energy content of six thousand cubic feet of natural gas to one barrel of crude oil.

The costs in cost centres from which there has been no commercial production are periodically assessed to determine whether it is likely such costs will be recovered in the future. To the extent there are costs which are not likely to be recovered in the future, they are written off. Petroleum and natural gas properties, for which there has been commercial production, are subject to a ceiling test in each reporting period to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying values of the petroleum and natural gas properties. If the carrying value of the petroleum and natural gas properties is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds an estimated fair value. The fair value estimate is normally based on the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using forecast product prices and costs and are discounted using a risk-free interest rate.

(d) Asset retirement obligations

The Company recognizes the fair value of obligations associated with the retirement of tangible long-lived assets in the period the asset is put to use, with the corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to asset retirement accretion, which is included in depletion, amortization and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depreciation and amortization of the underlying assets. Revisions to the estimated timing of cash flows or to the original estimated undiscounted costs could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

(e) Joint venture activities

The Company conducts substantially all its oil and gas exploration and production activities on a joint venture basis. This balance sheet reflects on the Company's proportionate interest in such activities.

(f) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, temporary differences arising from the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

(g) Estimates

The balance sheet is prepared in accordance with Canadian generally accepted accounting principles. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. By their nature, these estimates are subject to measurement uncertainty and the effect on the balance sheet of changes in such estimates in future periods could be significant. These estimates are primarily related to the ceiling tests which are based upon estimates of market values of unproven properties, proven and probable reserves, petroleum prices, future costs and other assumptions.

(h) Foreign currency translation

The Company's foreign operations are considered to be integrated and are translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities are translated at the year-end current exchange rate and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net income.

Transactions denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Gains and losses on translation or settlement are included in the determination of net income for the current period.

(i) Stock based compensation

The Company accounts for all stock options and warrants granted using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with corresponding credit to contributed surplus.

Consideration received upon the exercise of stock options together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as share capital.

(j) Per share amounts

Basic per share amounts are computed by dividing the earnings or loss by the weighted average shares outstanding during the reporting period. Diluted amounts are computed using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of in-the-money options and warrants are used to repurchase shares at the average market price for the period. The difference between the number of shares that could have been purchased at market prices in the period and the number of in-the-money options warrants is added to the weighted average shares outstanding.

(k) Revenue recognition

Revenue from the sale of oil is recognized when the product is delivered.

3) TIGER ACQUISITION

On October 21, 2005 Pan Orient acquired approximately 92 percent of the issued and outstanding shares of Tiger, and retired $1,155,178 of existing Tiger convertible debentures. Under the terms of the offer, each 4.25 Tiger shares were entitled to receive 1 Pan Orient share. Tiger convertible debenture holders were entitled to receive either i) cash consideration at face value plus accrued interest or ii) 870 Pan Orient shares for every $1,000 of principle and accrued interest.

Pan Orient was deemed the acquirer of Tiger and consequently Pan Orient has accounted for Tiger as an acquisition using the purchase method of accounting as follows:

Consideration	
Shares issued	$ 4,843,809
Cash payout of convertible debentures	439,120
Cash paid for Tiger shares	280,000
Acquisition costs	1,173,081
	$ 6,736,010

Purchase Price at Fair Value		
Property and equipment	$	6,473,510
Working capital (including cash of $500,636)		348,662
Convertible debentures		(86,162)
	$	6,736,010

At December 31, 2005 the 8 percent of unacquired Tiger shares are reflected as non-controlling interest. During the first quarter of 2006, the remaining 8 percent of the Tiger shares were acquired in exchange for 319,163 shares of Pan Orient, and the remaining $86,162 of outstanding convertible debentures were retired for cash.

4) PETROLEUM AND NATURAL GAS PROPERTIES

		Cost	Accumulated Amortization	Net Book Value
2005	Canada	$ 1,339,635	-	1,339,635
	Thailand	6,895,676	(71,000)	6,824,676
	India	229,172	-	229,172
	Office equipment - Canada	277,550	(32,940)	244,610
		$ 8,742,033	(103,940)	8,638,093
2004	Canada	$ 802,549	-	802,549

General and administrative expenses totaling $246,319 (2004 - $214,577) that were directly related to exploration and development activities have been capitalized for the year ended December 31, 2005.

For the year ended December 31, 2005, no ceiling test writedown was required for the Company's Thailand properties. The benchmark prices for which the ceiling test was based, are as follows:

2006:	US$ 62.38 / barrel WTI
2007:	US$ 58.71 / barrel WTI
2008:	US$ 55.10 / barrel WTI
2009:	US$ 51.11 / barrel WTI
2010:	US$ 49.61 / barrel WTI
After that:	+3% per annum

The carrying value of the Company's unproven Canadian and Indian properties are expected to be recoverable and as such no writedown was required.

5) SHARE CAPITAL

a) Authorized:

Unlimited number of common voting shares
Unlimited number of preferred shares

b) Issued and outstanding common shares

On April 8, 2005, the date of the reverse take-over, Pan Orient Energy Corp. had 1,108,000 common shares outstanding and Pan Orient Energy Ltd. had 16,270,799 common shares outstanding. The acquisition agreement between the two companies called for a one for one share exchange.

Common Shares	Number	Amount
Balance, January 1, 2004	-	$ -
Shares issued for cash	13,560,797	6,787,098
Shares issued for debt	125,333	94,000
Less: Share issue costs	-	(489,790)
Balance, January 1, 2005, Pan Orient Energy Ltd.	13,686,130	$ 6,391,308
Pan Orient Energy Ltd. shares issued on February 2005 financings	2,584,669	1,935,718
Pan Orient Energy Corp. shares issued and outstanding at April 8, 2005	1,108,000	-
Shares issued on April 8, 2005 financings	5,999,989	4,499,992
Shares issued for convertible debentures	36,666	27,500
Shares issued for amounts owing to related parties	133,333	100,000
Shares issued on Tiger acquisition	3,814,023	4,843,809
Less: Share issue costs	-	(568,738)
Balance as at December 31, 2005	27,362,810	$ 17,229,589

In connection with the completion of the Reverse Take-Over, Pan Orient completed two financings totaling $4,499,992: (a) a fully subscribed Private Placement financing for the issuance of 3,333,324 Common Shares, which included the agents fully exercising their 25% over allotment option, at a price of $0.75 per share for gross proceeds of $2,499,992 and (b) a fully subscribed Short Form Offering Document financing for the issuance of 2,666,666 Common Shares at a price of $0.75 per share for gross proceeds of $2,000,000. Both financings were subject to a 7% cash agent's commission. Pan Orient had completed a financing under similar terms in February 2005 for gross proceeds of $1,935,718.

Additionally, in connection with the completion of the reverse take-over, the following amounts were converted into Pan Orient Common Shares, at a price of $0.75 per share: (a) $27,500 of convertible debentures payable and (b) $100,000 of amounts due to related parties.

c) Options to purchase common shares

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2004	-	$ -
Granted	2,416,667	0.78
Forfeited	(66,667)	(0.75)
Balance, December 31, 2005	2,350,000	$0.78
Exercisable at December 31, 2005	750,000	$ 0.75
Weighted average remaining contractual life (years)		4.3

A Black-Scholes option pricing model, with the following weighted average assumptions for the year ended December 31, 2005, was used to estimate the fair value of options on the date of the grant, for inclusion as stock-based compensation expense. The fair value of the stock based compensation is amortized over the vesting period of the options, generally being two years.

Risk free interest rate	4.00%
Expected lives	5 years
Expected volatility	91%
Dividend per share	0.00%

The weighted average grant date fair value of options issued during 2005 was $0.56 per option.

d) Escrowed securities

Included in the shares outstanding at December 31, 2005 are a total of 3,773,318 shares owned by directors, officers and certain non-management shareholders of Pan Orient which are subject to the escrow requirements of the TSXV. Of these, 417,068 shares are subject to a Tier 1 Value Security Escrow Agreement pursuant to Policy 5.4 of the TSXV and will be releasable from escrow as to 25% on each of the six month anniversaries of the date that the Reverse Take-Over was approved by the TSXV, with the final 25% being released 18 months from such date.

The remaining 3,356,250 shares subject to escrow, including 2,122,500 shares held by non-management shareholders who entered into voluntary escrow agreements in April 2005, are subject to a Tier 2 Value Security Escrow Agreement pursuant to the Policy 5.4 of the TSXV and will be releasable from escrow as to 15% on each of the six month anniversaries of the date that the Reverse Take-Over was approved by the TSXV with the final 15% being released 36 months from such date. The depository for the escrowed shares is Valiant Trust Company.

e) Loss per share

The loss per share is based on the weighted average of shares outstanding for the year of 21,948,488 shares.

6) INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian federal and provincial statutory income tax rates to the loss for the year as follows:

	2005	2004
Loss for the year	$ (1,115,099)	$ -
Statutory tax rate	37.6%	-
Expected income tax recovery at statutory rate	(419,000)	-
Increase (decrease) resulting from:		
Non-deductible stock-based compensation expenses	257,000	-
Increase in valuation allowance	162,000	-
	$ -	$ -

The components of the net future income tax asset at December 31 are summarized below:

	2005	2004
Operating losses	$ 2,094,000	$ -
Petroleum and natural gas properties	(927,000)	-
Share issue costs	357,000	186,000
	1,524,000	186,000
Less: valuation allowance	(1,524,000)	(186,000)
	$ -	$ -

The Company has approximately $4.4 million in accumulated losses for tax purposes in Canada and Thailand and approximately $7.8 million in exploration and development expenses in Canada, Thailand and India available to reduce taxable income in future years. The losses expire at various times over the next ten years.

7) RELATED PARTY TRANSACTIONS

During 2005, the Company paid to its officers, either directly, or indirectly to companies controlled by them, $320,000 (2004 - $157,666) for consulting and management services.

In April 2004, the Company purchased an interest in petroleum and natural gas properties in northern Alberta for $1,000,000 from non-management shareholders. In the fourth quarter of 2004 one half of the above mentioned interest was sold back to the related parties at the original purchase cost.

The transactions were in the normal course of operations and were recorded at the exchange value which was the amount of consideration established and agreed to by the related parties.

8) FINANCIAL INSTRUMENTS

The Company is exposed to foreign currency fluctuations as it holds US dollar and Thai baht cash and cash equivalents and accounts payable. In addition, a portion of the Company's costs are incurred in each of the above currencies. There are no exchange rate contracts in place.

The fair value of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity.

9) COMMITMENTS

The Company has a commitment to lease premises for a term ending March, 2007. Annual lease commitments are $62,760 in 2006 and $15,690 in 2007.

The Company also has a commitment to spend $500,000 USD on its Thai L33/43 block during 2006.

10) SUBSEQUENT EVENTS

On April 28, 2006, the Company issued 8,000,000 common shares on a private placement basis, at a price of $3.75 per common share, for total gross proceeds of $30,000,000 ($28,200,000 net of commission).

PAN ORIENT ENERGY CORP.

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