



**PAN ORIENT ENERGY CORP.**

**2006 CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2006**

**PAN ORIENT ENERGY CORP.**  
**CONSOLIDATED BALANCE SHEETS**

	<b>March 31</b>	<b>December 31</b>
	<b>2006</b>	<b>2005</b>
	(unaudited)	(audited)
<b><u>ASSETS</u></b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 4,649,322	\$ 8,702,189
Accounts receivable	185,387	199,537
	<hr/> 4,834,709	<hr/> 8,901,726
Deposits (Note 3)	2,437,286	-
Petroleum and natural gas properties (Note 5)	10,613,341	8,638,093
	<hr/> <b>\$ 17,885,336</b>	<hr/> <b>\$ 17,539,819</b>
<b><u>LIABILITIES</u></b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 866,310	\$ 758,974
Convertible debentures payable (Note 4)	-	86,162
	<hr/> 866,310	<hr/> 845,136
Non-controlling interest (Note 4)	-	326,740
	<hr/> 866,310	<hr/> 1,171,876
<b><u>SHAREHOLDERS' EQUITY</u></b>		
SHARE CAPITAL (Note 6)	18,084,946	17,229,589
CONTRIBUTED SURPLUS	1,006,427	683,073
DEFICIT	(2,072,347)	(1,544,719)
	<hr/> 17,019,026	<hr/> 16,367,943
Subsequent event (note 8)		
	<hr/> <b>\$ 17,885,336</b>	<hr/> <b>\$ 17,539,819</b>

See accompanying notes to the consolidated financial statements

**PAN ORIENT ENERGY CORP.****CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT (UNAUDITED)**

	<b>Three Months Ended</b>	
	<b>March 31</b>	<b>March 31</b>
	<b>2006</b>	<b>2005</b>
<b>REVENUES</b>		
Oil - Thailand	\$ 297,081	\$ -
Royalties - Thailand	(53,075)	-
Interest - Canada	43,084	-
	<hr/> 287,090	<hr/> -
<b>EXPENSES</b>		
Stock based compensation (Note 6c)	323,354	-
General and administrative	209,491	-
Depletion, depreciation and accretion	143,609	-
Production and operating	109,171	-
Foreign exchange loss	29,093	-
	<hr/> 814,718	<hr/> -
<b>NET LOSS FOR THE PERIOD</b>	(527,628)	-
<b>DEFICIT BEGINNING OF PERIOD</b>	(1,544,719)	-
<b>DEFICIT, END OF PERIOD</b>	<hr/> \$ (2,072,347)	<hr/> \$ -
<b>LOSS PER SHARE – Basic and Diluted</b>	<hr/> \$ (0.02)	<hr/> \$ -

See accompanying notes to the consolidated financial statements

**PAN ORIENT ENERGY CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>Three Months Ended</b>	
	<b>March 31</b>	<b>March 31</b>
	<b>2006</b>	<b>2005</b>
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (527,628)	-
Items not affecting cash		
Stock based compensation	323,354	-
Depletion, depreciation and accretion	143,609	-
Unrealized foreign exchange loss	29,093	-
-	<u>(31,572)</u>	-
Change in non-cash working capital	92,393	65,726
	<u>60,821</u>	<u>65,726</u>
<b>INVESTING ACTIVITIES</b>		
Deposits	(2,437,286)	-
Investment in Tiger	-	(280,000)
Petroleum and natural gas properties	(1,590,240)	(446,746)
	<u>(4,027,526)</u>	<u>(726,746)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of common shares, net of share issue costs	-	1,754,916
Convertible debentures	(86,162)	-
	<u>(86,162)</u>	<u>1,754,916</u>
DECREASE IN CASH	(4,052,867)	1,093,896
CASH, BEGINNING OF PERIOD	8,702,189	5,589,135
CASH, END OF PERIOD	<u>\$ 4,649,322</u>	<u>6,683,031</u>

See accompanying notes to the consolidated financial statements

**PAN ORIENT ENERGY CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**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 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 for the three months ended March 31, 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.

**2) SIGNIFICANT ACCOUNTING POLICIES**

The unaudited interim consolidated financial statements of Pan Orient have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements of the Company for the year ended December 31, 2005. The disclosures included below are incremental to those included with the annual financial statements. The interim financial statements should be read in conjunction with the Company's financial statements and notes thereto for the year ended December 31, 2005.

**3) DEPOSITS**

Deposits are comprised of cash deposits securing standby letters of credit, which are pledged to a seismic contractor and the Thai government. Both relate to the Company's second quarter of 2006 seismic acquisition program.

**4) TIGER ACQUISITION**

On January 19, 2006 Pan Orient acquired the remaining 8 percent of the issued and outstanding shares of Tiger, which were reflected as non-controlling interest at December 31, 2005. The Tiger shares were acquired by the issuance of 319,163 Pan Orient shares at a deemed price of \$2.68 per share, resulting in an increase to petroleum and natural gas properties of \$528,616 and a decrease to non-controlling interest of \$326,740.

On March 30, 2006 the remaining \$86,162 of outstanding Tiger convertible debentures were retired for cash.

**PAN ORIENT ENERGY CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**5) PETROLEUM AND NATURAL GAS PROPERTIES**

		Cost	Accumulated Amortization	Net Book Value
2006	Canada	\$ 1,475,590	-	1,475,590
	Thailand	8,777,529	(175,000)	8,602,529
	India	229,172	-	229,172
	Office equipment - Canada	378,599	(72,549)	306,050
		\$ 10,860,890	(247,549)	10,613,341
		\$ 10,860,890	(247,549)	10,613,341

General and administrative expenses totaling \$25,000 (2005 - \$131,319) that were directly related to exploration and development activities have been capitalized for the three months ended March 31, 2006.

**6) SHARE CAPITAL**

a) Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares

b) Issued and outstanding common shares

Common Shares	Number	Amount
Balance as at December 31, 2005	27,362,810	\$ 17,229,589
Shares issued on Tiger acquisition	319,163	855,357
Balance as at March 31, 2006	27,681,973	\$ 18,084,946
	27,681,973	\$ 18,084,946

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
Granted	418,150	2.70
Balance, March 31, 2006	2,768,150	\$ 1.07
	2,768,150	\$ 1.07

**PAN ORIENT ENERGY CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

A Black-Scholes option pricing model, with the following weighted average assumptions for the period ended March 31, 2006, 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	4.5%
Expected lives	5 years
Expected volatility	59%
Dividend per share	0.00%

The weighted average grant date fair value of options issued during 2006 was \$1.46 per option.

**d) Loss per share**

The loss per share is based on the weighted average of shares outstanding for the period of 27,614,573 shares.

**7) RELATED PARTY TRANSACTIONS**

During the first three months of 2006, the Company paid to its officers, either directly, or indirectly to companies controlled by them, \$47,500 (2005 - \$89,500) for consulting and management services.

The services 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) SUBSEQUENT EVENT**

On April 28, 2006, the Company issued 8,000,000 common shares on an underwritten bought deal basis, at a price of \$3.75 per common share, for gross proceeds of \$30,000,000 (\$28,200,000 net of commissions).



**PAN ORIENT ENERGY CORP.**

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