



PAN ORIENT ENERGY CORP.

2008 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2008

Management has compiled the unaudited interim consolidated financial statements of Pan Orient Energy Corp. consisting of the interim consolidated Balance Sheets at March 31, 2008 and the interim consolidated statements of operations and interim consolidated statements of cash flows for the three months ended March 31, 2008 and 2007. Please note the interim financial statements have not been reviewed or audited by external auditors.

PAN ORIENT ENERGY CORP.**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	March 31	December 31
	2008	2007
(\$000s)		
<u>ASSETS</u>		
CURRENT		
Cash and cash equivalents	61,960	36,852
Accounts receivable	16,602	14,501
	<hr/> 78,562	51,353
Deposits	2,480	2,177
Petroleum and natural gas properties (Note 3)	94,253	88,940
	<hr/> 175,295	142,470
	<hr/> <hr/>	
<u>LIABILITIES</u>		
CURRENT		
Accounts payable and accrued liabilities	14,341	8,122
Taxes payable	18,548	4,645
	<hr/> 32,889	12,767
Future income tax	11,352	7,721
Asset retirement obligation	84	84
	<hr/> 44,325	20,572
Non-controlling interest	18,030	18,018
	<hr/>	
<u>SHAREHOLDERS' EQUITY</u>		
SHARE CAPITAL (Note 4)	98,893	98,800
UNDERWRITERS COMPENSATION OPTIONS	119	119
CONTRIBUTED SURPLUS	5,955	5,671
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	3,538	(1,722)
RETAINED EARNINGS	4,435	1,012
	<hr/> 7,973	(710)
	<hr/> 112,940	103,880
	<hr/> <hr/>	
Subsequent event (note 8)	175,295	142,470
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See accompanying notes to the consolidated financial statements

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

	Three Months Ended	
	March 31 2008	March 31 2007
<i>(\$000s, except per share amounts)</i>		
REVENUES		
Oil	32,498	1,573
Royalties	(2,254)	(120)
Interest	265	125
	30,509	1,578
EXPENSES		
Depletion, depreciation and accretion	3,086	790
Transportation costs	1,018	76
General and administrative	885	550
Production and operating	668	470
Stock based compensation	296	641
Foreign new ventures expenditures	-	40
Foreign exchange gain	(205)	(88)
	5,748	2,479
INCOME (LOSS) BEFORE TAXES AND NON-CONTROLLING INTEREST	24,761	(901)
INCOME TAXES		
Current income tax	6,360	-
Special remuneratory benefit	11,335	-
Future tax expense (reduction)	3,631	(70)
	21,326	(70)
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	3,435	(831)
NON-CONTROLLING INTEREST	(12)	128
NET INCOME (LOSS) FOR THE PERIOD	3,423	(703)
RETAINED EARNINGS (DEFICIT) BEGINNING OF PERIOD	1,012	(3,831)
RETAINED EARNINGS (DEFICIT) END OF PERIOD	4,435	(4,534)
INCOME (LOSS) PER SHARE – Basic	0.08	(0.02)
– Diluted	0.07	(0.02)

See accompanying notes to the consolidated financial statements

PAN ORIENT ENERGY CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended	
	March 31 2008	March 31 2007
(\$000s)		
Net Income (loss)	3,423	(703)
Unrealized gain recorded on translation of assets and liabilities of self-sustaining operations denominated in foreign currency	5,260	-
Comprehensive income (loss)	<u>8,683</u>	<u>(703)</u>

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

	Three Months Ended	
	March 31 2008	March 31 2007
(\$000s)		
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income (loss) for the period	3,423	(703)
Items not affecting cash		
Stock based compensation	296	641
Future income tax expense (reduction)	3,631	(70)
Depletion, depreciation and accretion	3,086	790
Unrealized foreign exchange loss (gain)	164	(88)
Non-controlling interest	12	(128)
	10,612	442
Change in non-cash working capital	18,429	(564)
	29,041	(122)
INVESTING ACTIVITIES		
Deposits	-	(2,507)
Petroleum and natural gas properties	(3,581)	(1,390)
Change in non-cash working capital	(550)	(1,916)
	(4,131)	(5,813)
FINANCING ACTIVITIES		
Issue of common shares	65	-
	65	-
INCREASE (DECREASE) IN CASH	24,975	(5,935)
EFFECT OF FOREIGN EXCHANGE ON CASH BALANCES	133	-
CASH, BEGINNING OF PERIOD	36,852	16,122
CASH, END OF PERIOD	61,960	10,187

See accompanying notes to the consolidated financial statements

PAN ORIENT ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1) DESCRIPTION OF BUSINESS

Pan Orient Energy Corp. ("Pan Orient" or the "Company"), is an oil and natural gas company based in Calgary, Alberta, which holds properties onshore Thailand and interests in subsidiaries with properties in Northern Alberta. In addition, the Company is pursuing other oil and natural gas exploration acreage in Asia.

2) SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The unaudited interim consolidated financial statements of Pan Orient have been prepared by management in accordance with Canadian generally accepted accounting principles. With the exception of changes as discussed, the interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements of the Company for the year ended December 31, 2007. Certain information and disclosures normally required in the notes to the annual financial statements have been condensed or omitted and therefore these interim financial statements and notes thereto should be read in conjunction with the audited financial statements for the year ended December 31, 2007. Unless otherwise indicated, all financial amounts are reported in thousands of Canadian dollars.

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures

Effective January 1, 2008 the Company adopted Section 1535, *Capital Disclosures* which requires companies to disclose their objectives, policies and processes for managing capital. See note 5 for disclosure regarding the Company's capital structure.

Financial Instruments Disclosure and Presentation

On January 1, 2008 the Company adopted Section 3862, *Financial Instruments - Disclosures* and Section 3863 *Financial Instruments - Presentation*. These disclosure standards were adopted prospectively by the Company and require entities to provide information that enable users to evaluate: 1) the significance of financial instruments for the entity's financial position and performance; 2) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date; and 3) how the entity manages its risks. These disclosures are provided in note 6.

3) PETROLEUM AND NATURAL GAS PROPERTIES

	Cost	Accumulated Amortization	Net Book Value
As at March 31, 2008			
Canada	56,336	-	56,336
Thailand	45,406	(8,309)	37,097
India	523	-	523
Office equipment - Canada	726	(429)	297
	<u>102,991</u>	<u>(8,738)</u>	<u>94,253</u>

PAN ORIENT ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	Cost	Accumulated Amortization	Net Book Value
As at December 31, 2007			
Canada	56,182	-	56,182
Thailand	37,336	(5,284)	32,052
India	395	-	395
Office equipment - Canada	679	(368)	311
	<u>94,593</u>	<u>(5,652)</u>	<u>88,940</u>

General and administrative and stock-based compensation expenses totaling \$31,000 (2007 - \$0.1 million) that were directly related to exploration and development activities have been capitalized for the three months ended March 31, 2008.

Costs associated with unproven properties of \$12.3 million (2007 - \$3.5 million) associated with the Thai full cost pool have been excluded from the depletion calculation. The capitalized costs associated with Canada, India and Indonesia are not subject to depletion as production has not commenced.

4) SHARE CAPITAL

a) Issued and outstanding Class A common shares

Common Shares	Number	Amount
Balance as at January 1, 2008	45,218,842	98,800
Exercise of stock options	28,600	65
Transfer from contributed surplus	-	28
Balance as at March 31, 2008	<u>45,247,442</u>	<u>98,893</u>

b) Options to purchase common shares

	Number of Shares	Weighted Average Exercise Price
Balance, January 1, 2008	4,512,150	3.36
Exercised	(28,600)	2.29
Forfeited	(11,050)	2.08
Balance, March 31, 2008	<u>4,472,500</u>	<u>3.37</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Options Outstanding			Options Exercisable				
Exercise Price(\$)	Number of Options	Weighted Average Contractual Life (years)	Weighted Average Exercise Price(\$)	Number of Options	Weighted Average Contractual Life (years)	Weighted Average Exercise Price(\$)	
0.75	2,283,334	2.05	0.75	2,272,223	2.05	0.75	
1.80 - 2.08	66,666	2.67	1.80	44,444	2.67	1.80	
2.75 - 3.90	1,403,500	3.16	3.40	971,670	3.10	3.37	
11.75	719,000	4.71	11.75	179,750	4.71	11.75	
0.75 - 11.75	4,472,500	2.83	3.37	3,468,087	2.49	2.07	

A Black-Scholes option pricing model is used to estimate the fair value of options on the date of the grant and revalue stock options granted to consultants on a quarterly basis. The fair value of the stock based compensation is amortized over the vesting period of the options, generally being two years. Weighted average assumptions used to calculate the fair value for the three months ended March 31 were as follows:

	<u>2008</u>	<u>2007</u>
Risk free interest rate	4.50%	4.50%
Expected lives	5 years	5 years
Expected volatility	67%	58%
Dividend per share	0.00%	0.00%

The weighted average grant date fair value of options issued during the three months ended March 31, 2007 was \$1.61. Stock based compensation expense totalled \$0.3 million in 2008 (2007 - \$0.6 million) of which, \$16,000 (2007 - \$0.1 million) was capitalized as it related to options granted to employees and consultants engaged in exploration activities.

c) Accumulated other comprehensive income (loss)	<u>2008</u>	<u>2007</u>
Balance at beginning of period	(1,722)	-
Unrealized foreign currency translation gain	5,260	-
Balance at end of period	<u>3,538</u>	-

d) Income per share

Basic weighted average shares outstanding for the three months ended March 31, 2008 was 45,237,699 (2007 - 27,614,573) and diluted weighted average shares outstanding for the period was 48,815,513 (2007 - 27,614,573).

5) CAPITAL MANAGEMENT

Pan Orient's primary objective for managing its capital structure is to maintain financial capacity for the purpose of sustaining the future development of the business and maintaining investor, creditor and market confidence.

The Company considers its capital structure to include shareholders' equity and working capital. Management is continually monitoring changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas industry. In the event that adjustments to the capital structure are necessary, the Company may consider issuing additional equity, raising debt or revising its capital investment programs.

Pan Orient's share capital is not subject to any external restrictions. The Company has not paid or declared any dividends since the date of incorporation, nor are any currently contemplated. There were no changes to the Company's approach to capital management during the year.

6) FINANCIAL INSTRUMENTS

Overview

The nature of Pan Orient's operations expose the Company to credit risk, liquidity risk and market risk, and changes in commodity prices, foreign exchange rates and interest rates may have a material effect on cash flows, net income and comprehensive income.

This note provides information about the Company's exposure to each of the above risks as well as the Company's objectives, policies and processes for measuring and managing these risks.

Pan Orient's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and policies.

Credit Risk

Credit risk is the risk of financial loss to the Company if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale of oil production; all of the Company's production is sold indirectly to the Thai National Oil Company. Pan Orient is paid for its production on a monthly basis, typically within a week of the end of the month. The Company has assessed the risk of non-collection from the Thai government as minimal. As at March 31, 2008 the Company's accounts receivable from the Thai government was \$12.7 million which was collected subsequent to March 31, 2008.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Company's short-term investments are held with a Canadian chartered bank and are monitored to ensure a stable return. The Company's short-term investments currently consist of term deposits and bankers acceptances and it is not the Company's policy to utilize complex, higher-risk investment vehicles.

PAN ORIENT ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at March 31, 2008 or December 31, 2007 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the three months ended March 31, 2008 or March 31, 2007.

As at March 31, 2008 there were no significant amounts past due or impaired.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its work commitments and other financial obligations as they are due. Pan Orient's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation.

The Company's liquidity is dependent upon its operating cash flows and ability to raise funds. To forecast and monitor liquidity the Company prepares annual operating and capital expenditure budgets which are monitored and updated as considered necessary. Expected future cash flow from the Thailand properties currently exceeds operating and future capital expenditures. Considering these circumstances and the cash balance at March 31, 2008 of \$60.2 million, the Company's liquidity risk is assessed as low.

As at March 31, 2008 the Company's only contractual financial liabilities are accounts payable and accrued liabilities of \$14.3 million which will mature within one year.

Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows, net income and comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that future cash flows, net income and comprehensive income will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum sales are denominated in Thai baht and all operational and capital activities related to the Thailand properties are transacted in either Thai baht or the U.S. dollar. As well, the underlying market prices in Thailand for petroleum are impacted by changes in the exchange rate between the Thai baht and U.S. dollar.

The Company currently does not have significant exposure to other currencies which is not expected to change in the foreseeable future as the work commitments in Indonesia are expected to be carried out in U.S. dollars.

Changes in foreign exchange rates between the Canadian dollar and the U.S. dollar and Thai baht can affect net income and other comprehensive income as a portion of the Company's operations is considered a self-sustaining foreign operation. As at March 31, 2008 the following financial instruments were denominated in currencies other than the Canadian dollar:

PAN ORIENT ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

	Thai baht (000s of Thai baht)	U.S. Dollar (\$000s USD)
Cash and cash equivalents	876,716	8,711
Accounts receivable	425,242	39
Deposits	24,300	-
Accounts payable	(887,534)	-
Net exposure	438,724	8,750
Net exposure in CDN dollars ⁽¹⁾ (\$000s CDN \$)	14,403	8,925
Effect of a \$0.02 increase in USD to CDN \$ (000s CDN \$):		
Increase (decrease) to pre-tax net income	-	75
Increase (decrease) to other comprehensive income	-	103
Effect of a \$0.02 decrease in USD to CDN \$ (000s CDN \$):		
Increase (decrease) to pre-tax net income	-	(75)
Increase (decrease) to other comprehensive income	-	(103)
Effect of a 1.0 baht increase in baht to CDN \$ (000s CDN \$):		
Increase (decrease) to other comprehensive income	473	-
Effect of a 1.0 baht decrease in baht to the CDN \$ (000s CDN \$):		
Increase (decrease) to other comprehensive income	(473)	-

(1) Converted using exchange rate at March 31, 2008

The Company did not have any forward exchange contracts in place as at or during the three months ended March 31, 2008.

Commodity Price Risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and development properties and level of spending for future activities. Prices received by the Company for its production are largely beyond Pan Orient's control as petroleum prices are impacted by world economic events that dictate the levels of supply and demand. All of Pan Orient's oil production is sold at spot rates exposing the Company to the risk of price movements.

The Company did not have any commodity price contracts in place as at or during the three months ended March 31, 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash and cash equivalents which bear a floating rate of interest. The risk is not considered significant as the Company's interest revenue is approximately 2% of total revenue.

The Company did not have any interest rate swaps or financial contracts in place as at or during the three months ended March 31, 2008. For the three months ended March 31, 2008, a difference in the interest rate of 1.0% would change net income before tax by an estimated \$0.1 million (March 31, 2007 – \$32,000), assuming all other variables are constant.

Fair Value of Financial Instruments

The Company's financial instruments as at March 31, 2008 included cash and cash equivalents, accounts receivable, deposits and accounts payable and accrued liabilities. The fair value of these financial instruments, except for the deposits, approximate their carrying amounts due to their short terms to maturity. The fair value of the deposits approximate their carrying value as they bear interest at market rates.

The Company will assess at each reporting period whether financial assets, other than those classified as held-for-trading, are impaired. Any impairment loss will be included in net income for the period.

7) SEGMENTED INFORMATION

The Company operates in two industry segments; the exploration for and production of conventional oil and gas in Asia (currently Thailand) and the development of heavy oil in Canada through its 55.4% owned subsidiary Andora.

As at and for the three months ended March 31, 2008 (\$000s)

	Canada	Thailand	Total
Revenue	261	32,502	32,763
Net Income (loss)	(315)	3,378	3,423
Depletion, depreciation and accretion	61	3,025	3,086
Total assets	97,280	78,015	175,295
Capital expenditures for the period	313	3,268	3,581

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8) SUBSEQUENT EVENT

On May 12, 2008, the Company announced that it had purchased an operated 90% working interest in the 3,989 square kilometer Batu Gajah Production Sharing Contract (“PSC”), located onshore south Sumatra, Indonesia. Total consideration paid was \$6 million USD. Under the terms of the PSC, the Company is committed to capital activities totalling approximately \$29.75 million USD by January 16, 2010.

The Company also announced it had purchased, for \$1 million USD, the rights to a joint study area covering approximately 6,200 square kilometers also located onshore south Sumatra, Indonesia.

At the same time, the Company also entered into a purchase agreement for another Indonesian PSC which, if successful, would require a payment of \$11.5 million USD payable in a combination of cash and common shares of the Company. Another party has a right of first refusal to purchase the PSC.



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