



**PAN ORIENT ENERGY CORP.**

**2005 SECOND QUARTER REPORT**

**FOR THE SIX MONTHS ENDED JUNE 30, 2005**

## **MESSAGE TO SHAREHOLDERS**

The second quarter of 2005 was an active period for Pan Orient and its executive team. During this three month period several material steps were completed to lay the foundation for the bright future we envision for Pan Orient and its shareholders. These steps included the completion of a reverse takeover, the completion of \$12.5 million in financings and the execution of an acquisition agreement with the Board of Directors of Tiger Petroleum Inc. ("Tiger").

Throughout the second quarter of 2005, Pan Orient worked with Tiger's management to advance the proposed acquisition of Tiger. This process led to the August 26, 2005 filing of the Pan Orient Offer to Purchase and the accompanying Takeover Bid Circular. Our Offer is open for acceptance and tender by Tiger security holders until September 30, 2005. Working with Tiger management, Pan Orient has also initiated the required steps to exploit Tiger's Thailand assets in an expedited and aggressive future work program.

Over the coming months, Pan Orient will continue to examine acquisition opportunities in low cost, high impact projects in Asia, specifically Thailand, China, India and Indonesia. Our focus on Asia is motivated by a desire to become one of the premier "niche" operators in a rapid growth region that possess exceptional exploration potential combined with favorable fiscal terms.

## **MAJOR SECOND QUARTER ACCOMPLISHMENTS ARE AS FOLLOWS:**

### **Corporate**

- **April 8** - Completed \$12.5 million in equity financings to provide sufficient cash to pursue multiple project opportunities within the Asia region
- **April 18** - Closed the reverse takeover of Pan Orient Energy Ltd. and began trading on the TSX Venture Exchange
  - Appointed a new Calgary-based management team with an exceptional record of international and domestic success
  - Appointed an accomplished new Board of Directors including highly successful names in international exploration.
- **April 28** - Executed a takeover agreement with the board of directors of Tiger (a TSX Venture Exchange listed company).
- **June 30** - Changed the Company's name to Pan Orient Energy Corp. (formerly Welwyn Resources Ltd.) to reflect the Company's primary focus on projects in Asia.

### **Thailand - Acquisition of Tiger**

On April 28, 2005 Pan Orient announced an acquisition agreement had been executed with the Board of Directors of Tiger. The Offer consists of one (1) common share of Pan Orient for each four and one quarter (4.25) common shares of Tiger and is subject to certain conditions, including the deposit of not less than 66 2/3% of the outstanding Tiger shares, receipt of all required regulatory approvals and other customary conditions. The Offer also includes a corresponding offer to Tiger convertible debenture holders. The Offer and the accompanying Take-Over Bid Circular was filed on August 26, is currently being mailed, and is open for the acceptance and tender of Tiger security holders until September 30, 2005.

Key attributes that make the Tiger acquisition attractive for both Pan Orient and Tiger shareholders are as follows:

- The acquisition allows Pan Orient to establish a meaningful asset base in Asia at a reasonable cost – total consideration paid by Pan Orient expected to be approximately 4.6 million Pan Orient shares.
- The acquisition provides Tiger shareholders an accomplished international management team in a well capitalized company. After closing of the Tiger acquisition, Pan Orient will have approximately 28.1 million shares outstanding, approximately \$10 million in available uncommitted cash and zero debt.
- The acquisition secures an operated, majority interest position in approximately 2 million acres of exploration and production licenses in an under-explored basin onshore Thailand.
- Tiger has an established reserve base with current net production of approximately 100 bbl/d.
- The license acreage holds material exploration upside on existing and newly identified prospects which can be explored using low cost drilling techniques.
- The existing developed area has ample available operated infrastructure to accommodate new production.
- The acquisition positions Pan Orient as an ‘existing international operator’ that will be recognized by international governments, further enhancing access to new opportunities particularly through new license and concession bids in the Asia region.
- The acquisition provides a sound Asia base for building on other Asia region opportunities that Pan Orient is currently examining.

#### **Thailand - 19th Licensing Round**

The Company is currently evaluating a number of concessions that are being offered in Thailand’s 19th Licensing round. Bids are due on September 15, 2005.

#### **China**

On May 2, Pan Orient executed a 50/50 joint venture agreement with a Hong Kong based corporation that holds Memorandum of Understandings (“MOU’s”) on eight onshore China oil production and development opportunities located in the Ordos and Songliao Basins. A detailed in-country review by Pan Orient management in June resulted in the high grading of three of the eight opportunities, all located within the prolific Songliao Basin, host to the 9 billion barrel Daqing oilfield. The joint venture is currently negotiating with various parties working towards final agreements and the establishment of a representative office to be located in the Chinese city of Daqing.

#### **India**

On May 31, Pan Orient, in partnership with the Adani Group (a large Gujarat based Indian conglomerate), submitted bids on two concessions in the 2005 NELP-V bid round, however, neither bid was successful. Over the remainder of 2005, Pan Orient will continue to pursue exploration opportunities in the broader Indian subcontinent region. Pan Orient’s management has extensive experience in numerous Indian oil and gas basins.

## **Indonesia**

During the second quarter, Pan Orient prepared for the July 2005 Indonesian licensing round and submitted an aggressive bid, on a 100% working interest basis, for a large, highly prospective oil and gas concession onshore West Java, Indonesia. The bid was ultimately unsuccessful, however, Pan Orient is evaluating additional Indonesian acreage opportunities in preparation for the second 2005 licensing round with bids due in November 2005. Pan Orient's management has extensive experience in numerous basins both onshore and offshore Indonesia.

## **Sawn Lake, Alberta**

Throughout the second quarter, management reviewed the program for fall 2005 drilling of the Company's first Sawn Lake well in northern Alberta. Pan Orient has been informed, by the operator of the project, that permits are in place and a rig has been contracted for the drilling of the well. Pan Orient owns a 10% interest in 63 contiguous sections in this heavy oil project. Third party engineering evaluations have credited the property with 1.2 billion barrels of oil-in-place.

## **OUTLOOK**

Pan Orient's upcoming activities on our Sawn Lake heavy oil project and our Tiger acquisition of Thailand licenses are just the first steps in moving aggressively to achieve our growth objectives. Pan Orient's management is preparing for an active 2005 and 2006 exploration and development drilling program in Thailand that will include the acquisition of approximately 300 square kilometres of 3D seismic. Over the months to come we will also be evaluating concessions being offered in licensing rounds currently underway in Indonesia and Thailand and we will continue to use our existing network of contacts to actively pursue land and production acquisitions by other means in the Asia region. We are focused on remaining well capitalized, with ample cash on hand to pursue new projects as they arise and to expeditiously develop our existing asset base. We are confident that our strategy of focusing on low cost drilling opportunities with material exploration upside will produce significant, sustainable growth in shareholder value over the near term and beyond.

*Respectfully submitted on behalf of the Management and the Board of Directors*



**Jeff Chisholm**

President and Chief Executive Officer

August 29, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three and six month periods ended June 30, 2005, and the audited financial statements and MD&A for the year ended December 31, 2004. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Effective April 8, 2005, Pan Orient (formerly Welwyn Resources Ltd.) completed a reverse take-over (the "Reverse Take-Over") involving the acquisition of all of the issued and outstanding shares of Pan Orient Energy Ltd., whereby the shareholders of Pan Orient Energy Ltd. acquired control of Pan Orient. The 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 Pan Orient Energy Ltd. is deemed to be the acquirer, by virtue of the Reverse Take-Over, and as such the reporting issuer, the consolidated statements of loss and deficit and the consolidated statements of cash flows for the 2004 comparative year 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 three and six month periods ended June 30, 2005 are the accounts of Pan Orient (formerly Welwyn Resources Ltd.) from April 8, 2005, forward.

Interest income on the Company's approximately \$10 million of cash deposits during the second quarter of 2005 was \$49,280.

General and administrative expenses for the second quarter of 2005 were \$117,644. These expenses do not include \$49,000 in consulting fees relating to the acquisition of oil and gas properties, which were capitalized. The Company has a relatively low general and administrative cost structure in place with total annual salaries and consulting fees to its four officers and consultants of \$358,000 and annual lease expense relating to the Company's head office of \$63,000 which the Company has sub-leased to March 2007. Additional expenses during the quarter related largely to increased activity and costs in connection with the Reverse-Take Over.

Depletion and amortization charges were \$2,943 for the quarter, as the Company began amortizing its office and computer equipment.

The stock based compensation expense for the second quarter of 2005 was \$484,600, relating to the issuance of 2,350,000 stock options during the quarter. As required under Canadian GAAP the Company uses the fair value method to account for its stock based compensation.

Due largely to the non-cash stock compensation expense recorded the Company reported a net loss for the period of \$555,297.

In connection with the completion of the Reverse Take-Over, during the quarter Pan Orient completed two financings totaling \$4,499,992: (a) a fully subscribed Private Placement financing for the issuance of 3,333,323 Pan Orient 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 Pan Orient 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 \$8 million bringing the total amount of equity raised to \$12.5 million.

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.

During the first half of 2005, the Company paid to its officers and shareholders, either directly, or indirectly to companies controlled by them, \$179,000 for consulting and management services. In April 2004, the Company purchased a 20% interest in petroleum and natural gas properties in northern Alberta for \$1,000,000 which was funded by certain of the Company's shareholders in exchange for a note payable. In the fourth quarter of 2004 one half of the above mentioned interest was sold in exchange for the acceptance of \$500,000 of the note payable by the purchaser. The remaining \$500,000 of the note payable was subsequently converted into shares of the Company. 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.

At June 30, 2005, the Company had positive working capital of approximately \$10.2 million, with \$10.1 million of that balance being in uncommitted cash deposits.

Management believes it has sufficient cash on hand to fund a robust seismic and exploration program on Tiger's Thailand assets, fund a multi-well drilling program on Pan Orient's Sawn Lake prospect as well as fund entrance and drilling opportunities in other Asian countries. Pan Orient is actively pursuing land and production acquisition opportunities in India, China and Indonesia. If the Company requires additional capital for either new or existing projects it would likely be provided through additional equity financing.

At June 30, 2005 Pan Orient had 23,548,787 shares outstanding.

## **TIGER**

On August 26, 2005 Pan Orient filed its Offer to Purchase and the accompanying Take-Over Bid Circular (the "Offer") relating to its proposed acquisition of Tiger Petroleum Inc. ("Tiger"). The Offer is open for the acceptance and tender of Tiger security holders until September 30, 2005.

The acquisition consideration consists of one (1) common share of Pan Orient for each four and one quarter (4.25) common shares of Tiger and is subject to certain conditions, including the deposit of not less than 66 2/3% of the outstanding Tiger shares, receipt of all required regulatory approvals and other customary conditions. On August 26, 2005 the closing price of the Pan Orient shares on the TSXV was \$1.71, representing a premium of 68% over the \$0.24 closing price of Tiger shares on May 10, 2005, being the last day on which the Tiger shares traded on the TSXV prior to being suspended from trading.

The Offer also provides for the acquisition of all of the outstanding convertible debentures of Tiger for, at the election of each holder thereof, (A) cash consideration equal to the principal amount thereof and accrued and unpaid interest thereon, or (B) consideration equal to 870 common shares of Pan Orient for each \$1,000 of principal amount thereof and accrued and unpaid interest thereon or (C) any combination of (A) and (B).

Pan Orient currently owns 1,400,000 common shares of Tiger, or approximately 9.4 percent of Tiger's issued and outstanding common shares. After closing of the Tiger acquisition, Pan Orient will have approximately 28.1 million shares outstanding (assuming all Tiger debenture holders convert to Pan Orient shares), approximately \$10 million in available uncommitted cash and zero debt.

**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 and environmental and safety risks. In order to mitigate these risks, the Company has an experienced base of qualified personnel, both technical and financial, and maintains an insurance program that is consistent with industry standards.

The acquisition of Tiger also carries business risks including certain legal proceedings against Tiger which are outlined on page 30 of the Company's offer to Purchase dated August 26, 2005, as filed on SEDAR, and risk factors stated on pages A-18 to A-22 of the Offer.

**ADDITIONAL INFORMATION**

Additional information relating to the Company can also be found on SEDAR at [www.sedar.com](http://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 June 30, 2005 and the interim consolidated Statements of Loss and Deficit and interim consolidated Statements of Cash Flows for the three and six month periods ended June 30, 2005 and 2004. Please note the interim financial statements have not been reviewed or audited by external auditors.

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

	June 30 2005	December 31 2004
	(Unaudited)	(Audited)
<b><u>ASSETS</u></b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 10,095,875	5,589,135
Accounts receivable	161,070	61,737
	<hr/> 10,256,945	<hr/> 5,650,872
<b>LONG TERM</b>		
Investment (Note 3)	280,000	-
Petroleum and natural gas properties (Note 4)	1,452,763	802,549
	<hr/> 1,732,763	<hr/> 802,549
	<b>\$ 11,989,708</b>	<b>6,453,421</b>
<b><u>LIABILITIES</u></b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 104,245	62,113
<b><u>SHAREHOLDERS' EQUITY</u></b>		
SHARE CAPITAL (Note 6)	12,385,780	6,391,308
CONTRIBUTED SURPLUS	484,600	-
DEFICIT	(984,917)	-
	<hr/> 11,885,463	<hr/> 6,391,308
	<b>\$ 11,989,708</b>	<b>6,453,421</b>

See accompanying notes to interim consolidated financial statements

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

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
REVENUES				
Interest	\$ 49,890	-	49,890	-
EXPENSES				
General and administration	117,644	-	117,644	-
Depletion and amortization	2,943	-	2,943	-
Stock based compensation	484,600	-	484,600	-
	605,187	-	605,187	-
NET LOSS FOR THE PERIOD	(555,297)	-	(555,297)	-
DEFICIT BEGINNING OF PERIOD	-	-	-	-
ADJUSTMENT TO DEFICIT	(429,620)	-	(429,620)	-
DEFICIT, END OF PERIOD	\$ (984,917)	-	(984,917)	-
LOSS PER SHARE – Basic and Diluted	\$ (0.02)	-	(0.02)	-

See accompanying notes to interim consolidated financial statements

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
<b>CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (555,297)	-	(555,297)	-
Items not affecting cash				
Depletion and amortization	2,943	-	2,943	-
Stock based compensation	484,600	-	484,600	-
	(67,754)	-	(67,754)	-
Change in non-cash working capital	(425,455)	-	(359,728)	-
	(493,209)	-	(427,482)	-
<b>INVESTING ACTIVITIES</b>				
Investment purchase	-	-	(280,000)	-
Acquisition of petroleum and natural gas properties	(206,411)	(1,000,000)	(653,157)	(1,000,000)
Cash acquired on reverse take-over	407	-	407	-
	(206,004)	(1,000,000)	(932,750)	(1,000,000)
<b>FINANCING ACTIVITIES</b>				
Issue of common shares, net of share issue costs	4,112,056	100	5,866,972	100
Advances from related parties	-	1,000,000	-	1,000,000
	4,112,056	1,000,100	5,866,972	1,000,100
INCREASE IN CASH	3,412,843	100	4,506,740	100
CASH, BEGINNING OF PERIOD	6,683,032	-	5,589,135	-
CASH, END OF PERIOD	\$ 10,095,875	100	10,095,875	100

See accompanying notes to interim consolidated financial statements

**PAN ORIENT ENERGY CORP.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2005 (UNAUDITED)**

**1) BASIS OF PRESENTATION**

On April 15, 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 statements of loss and deficit and the consolidated statements of cash flows for the 2004 comparative year 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 three and six month periods ended June 30, 2005 are the accounts of Pan Orient (formerly Welwyn Resources Ltd.) from April 8, 2005, forward.

Pan Orient is a junior oil and natural gas company based in Calgary, Alberta, which holds properties in northern Alberta and actively pursues opportunities in Asia for the acquisition of exploration acreage and exploration of oil and natural gas. At June 30, 2005, Pan Orient did not hold any interests or reserves in the Asia region, but held an interest in petroleum and natural gas properties in the Sawn Lake area of northern Alberta with no current production.

**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 Welwyn Resources Ltd. for the year ended December 31, 2004. 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, 2004.

**3) INVESTMENT**

During the first quarter of 2005 the Company purchased 1,400,000 common shares of Tiger Petroleum Inc. ("Tiger") at \$0.20 per share as part of a private placement by Tiger. This investment is recorded at cost and the Company held 9.36% of Tiger's common shares at June 30, 2005. Tiger is a public oil and gas company engaged in the exploration for, and the development, production and acquisition of, natural gas and petroleum interests in Asia, particularly Thailand.

On April 28, 2005 Pan Orient announced an acquisition agreement had been executed with the Board of Directors of Tiger. The acquisition consideration consists of one (1) common share of Pan Orient for each four and one quarter (4.25) common shares of Tiger and is subject to certain conditions, including the deposit of not less than 66 2/3% of the outstanding Tiger shares, receipt of all required regulatory approvals and other customary conditions. The agreement also includes a corresponding offer to Tiger convertible debenture holders. The offer and the accompanying take-over bid circular was filed on August 26 and is open for the acceptance and tender of Tiger security holders until September 30, 2005.

**PAN ORIENT ENERGY CORP.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2005 (UNAUDITED)**

**4) PETROLEUM AND NATURAL GAS PROPERTIES**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Petroleum and natural gas properties	\$ 1,455,706	\$ 2,943	\$ 1,452,763

The petroleum and natural gas properties are in Canada and include acquisition and carrying charges at cost. Since the properties are non-producing no depletion has been calculated to date.

Included in petroleum and natural gas properties are computer and office equipment acquired during the period for \$195,566 of which \$153,254 has not been amortized.

**5) RELATED PARTY TRANSACTIONS**

During the first half of 2005, the Company paid to its officers and shareholders, either directly, or indirectly to companies controlled by them, \$179,000 for consulting and management services. Of these costs, \$138,500 was included in the cost of acquisition of the petroleum and natural gas properties.

In April 2004, the Company purchased a 20% interest in petroleum and natural gas properties in northern Alberta for \$1,000,000 which was funded by certain of the Company's shareholders in exchange for a note payable. In the fourth quarter of 2004 one half of the above mentioned interest was sold in exchange for the acceptance of \$500,000 of the note payable by the purchaser. The remaining \$500,000 of the note payable was subsequently converted into shares of the Company.

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.

**PAN ORIENT ENERGY CORP.****NOTES TO INTERIM FINANCIAL STATEMENTS JUNE 30, 2005 (UNAUDITED)****6) 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. As the acquisition agreement between the two companies called for a one for one share exchange, the total common shares outstanding at June 30, 2005, after giving effect to the adjustments described below is 23,548,787.

Common Shares	Number	Amount
Shares issued to Pan Orient Energy Ltd. shareholders	16,270,799	\$ 8,146,224
Pan Orient Energy Corp. shares issued and outstanding at March 31, 2005	1,108,000	0
Pan Orient Energy Corp. shares issued for convertible debentures	36,666	27,500
Pan Orient Energy Corp. shares issued for amounts owing to related parties	133,333	100,000
Pan Orient Energy Corp. shares issued on April 8, 2005 financings	5,999,989	4,499,992
Less: Share issue costs during the second quarter	-	(387,936)
<b>Balance as at June 30, 2005</b>	<b>23,548,787</b>	<b>\$ 12,385,780</b>

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 Pan Orient 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 Pan Orient 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 \$8,000,000.

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.

**PAN ORIENT ENERGY CORP.****NOTES TO INTERIM FINANCIAL STATEMENTS JUNE 30, 2005 (UNAUDITED)**

## c) Options to purchase common shares

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2004	-	\$ -
Forfeited	-	-
Excercised	-	-
Granted	2,350,000	0.75
Balance, June 30, 2005	2,350,000	\$0.75

A modified Black-Scholes option pricing model, with the following weighted average assumptions for the six months ended June 30, 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.

Risk free interest rate	4.00%
Expected lives	5 years
Expected volatility	92%
Dividend per share	0.00%

The grant date fair value of options issued during 2005 was \$0.55 per option.

## d) Escrowed securities

Included in the 23,548,787 shares outstanding at June 30, 2005 are a total of 4,653,100 Pan Orient 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, 625,600 Pan Orient 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 4,027,500 Pan Orient Shares subject to escrow, including 2,884,919 Welwyn 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.