



**PAN ORIENT ENERGY CORP.**

**2007 CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2007**

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

	June 30 2007	December 31 2006
<b><u>ASSETS</u></b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 6,983,463	\$ 16,121,554
Accounts receivable	3,705,772	2,925,414
	<hr/> 10,689,235	19,046,968
Deposits (Note 3)	5,679,473	1,144,188
Petroleum and natural gas properties (Note 4)	63,505,927	58,652,742
	<hr/> \$ 79,874,635	\$ 78,843,898
<b><u>LIABILITIES</u></b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 3,744,787	\$ 1,952,070
Future income tax	8,201,452	8,192,052
Asset retirement obligation	20,001	20,001
	<hr/> 11,966,240	10,164,123
Non-controlling interest	7,603,188	7,726,888
<b><u>SHAREHOLDERS' EQUITY</u></b>		
SHARE CAPITAL (Note 5)	62,396,521	61,962,901
UNDERWRITERS COMPENSATION OPTIONS	246,500	365,000
CONTRIBUTED SURPLUS	3,434,928	2,456,194
DEFICIT	(5,772,742)	(3,831,208)
	<hr/> 60,305,207	60,952,887
Subsequent events (note 6)		
	<hr/> \$ 79,874,635	\$ 78,843,898

See accompanying notes to the consolidated financial statements

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
<b>REVENUES</b>				
Oil - Thailand	\$ 2,811,536	265,171	\$ 4,384,118	562,252
Royalties - Thailand	(264,804)	(37,247)	(384,290)	(90,322)
Interest - Canada	98,215	247,971	223,280	291,055
	<b>2,644,947</b>	<b>475,895</b>	<b>4,223,108</b>	<b>762,985</b>
<b>EXPENSES</b>				
Depletion, depreciation and accretion	1,164,110	120,738	1,953,843	264,347
Stock based compensation	237,199	677,024	878,733	1,000,378
General and administrative	764,776	432,441	1,314,964	641,932
Production and operating	866,345	115,033	1,412,395	224,204
Foreign new ventures expenditures	-	-	40,000	-
Foreign exchange loss	807,364	51,653	719,007	80,746
	<b>3,839,794</b>	<b>1,396,889</b>	<b>6,318,942</b>	<b>2,211,607</b>
LOSS BEFORE TAXES AND NON-CONTROLLING INTEREST	<b>(1,194,847)</b>	<b>(920,994)</b>	<b>(2,095,834)</b>	<b>(1,448,622)</b>
FUTURE INCOME TAX REDUCTION (INCREASE)	<b>(39,850)</b>	<b>-</b>	<b>30,600</b>	<b>-</b>
NON-CONTROLLING INTEREST	<b>(3,865)</b>	<b>-</b>	<b>123,700</b>	<b>-</b>
NET LOSS FOR THE PERIOD	<b>(1,238,562)</b>	<b>(920,994)</b>	<b>(1,941,534)</b>	<b>(1,448,622)</b>
DEFICIT, BEGINNING OF PERIOD	<b>(4,534,180)</b>	<b>(2,072,347)</b>	<b>(3,831,208)</b>	<b>(1,544,719)</b>
DEFICIT, END OF PERIOD	<b>\$ (5,772,742)</b>	<b>(2,993,341)</b>	<b>\$(5,772,742)</b>	<b>(2,993,341)</b>
LOSS PER SHARE – Basic and Diluted	<b>\$ (0.03)</b>	<b>(0.03)</b>	<b>\$ (0.05)</b>	<b>(0.05)</b>

See accompanying notes to the consolidated financial statements

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
<b>CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (1,238,562)	(920,994)	\$ (1,941,534)	(1,448,622)
Items not affecting cash				
Stock based compensation	237,199	677,024	878,733	1,000,378
Future income tax expense (reduction)	39,850	-	(30,600)	-
Depletion, depreciation and accretion	1,164,110	120,738	1,953,843	264,347
Unrealized foreign exchange loss	807,364	51,653	719,007	80,746
Non-controlling interest	3,865	-	(123,700)	-
	<b>1,013,826</b>	<b>(71,579)</b>	<b>1,455,749</b>	<b>(103,151)</b>
Change in non-cash working capital	<b>(1,217,688)</b>	<b>(789,085)</b>	<b>(1,781,533)</b>	<b>(696,692)</b>
	<b>(203,862)</b>	<b>(860,664)</b>	<b>(325,784)</b>	<b>(799,843)</b>
<b>INVESTING ACTIVITIES</b>				
Deposits	(2,348,492)	1,709,070	(4,855,285)	(728,216)
Petroleum and natural gas properties	(5,276,695)	(3,191,684)	(6,667,027)	(4,781,924)
Change in non-cash working capital	4,620,263	-	2,704,885	-
	<b>(3,004,924)</b>	<b>(1,482,614)</b>	<b>(8,817,427)</b>	<b>(5,510,140)</b>
<b>FINANCING ACTIVITIES</b>				
Issue of common shares				
net of share issue cost	315,120	28,083,017	315,120	28,083,017
Convertible debentures	-	-	-	(86,162)
	<b>315,120</b>	<b>28,083,017</b>	<b>315,120</b>	<b>27,996,855</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>(2,893,666)</b>	<b>25,739,739</b>	<b>(8,828,091)</b>	<b>21,686,872</b>
<b>EFFECT OF FOREIGN EXCHANGE ON CASH BALANCES</b>	<b>(310,000)</b>	<b>-</b>	<b>(310,000)</b>	<b>-</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>10,187,129</b>	<b>4,649,322</b>	<b>16,121,554</b>	<b>8,702,189</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 6,983,463</b>	<b>30,389,061</b>	<b>\$ 6,983,463</b>	<b>30,389,061</b>

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 an oil and natural gas company based in Calgary, Alberta, which holds properties onshore Thailand and interests in subsidiaries with non-producing properties in Northern Alberta. In addition, the Company is pursuing other oil and natural gas exploration acreage in Asia.

**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 accounting policies and methods of computation used for the financial statements of the Company for the year ended December 31, 2006 except for changes related to the adoption of new Canadian accounting standards noted below. 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, 2006.

On January 1, 2007, the Company adopted new Canadian accounting standards pertaining to financial instruments – recognition and measurement, financial instruments – presentation and disclosures, hedging, comprehensive income and equity. As prescribed by the new standards, prior periods have not been restated.

The new standards require all financial instruments within its scope, including all derivatives, to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired. There was no impact on the financial statements as a result of adopting the new standards.

The new standards require a statement of other comprehensive income; however, there are no amounts that the Company would include in other comprehensive income except the net loss.

**3) DEPOSITS**

Included in deposits is approximately \$2.0 million (\$1.87 million USD) of cash deposits securing a Standby Letter of Credit posted in favor of the Government of Thailand guaranteeing the Company’s work program on its 100% owned L53/48 onshore concession. Deposits also include \$2.3 million of cash, securing a Standby Letter of Credit relating to the L44/43 seismic shoot that was completed in August, 2007. The remainder of deposits are comprised mainly of cash deposits issued to the Thai government relating to importation permits.

**PAN ORIENT ENERGY CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****4) PETROLEUM AND NATURAL GAS PROPERTIES**

		Cost	Accumulated Amortization	Net Book Value
2007	Canada	\$ 42,920,126	-	42,920,126
	Thailand	22,460,040	(2,599,000)	19,861,040
	India	325,410	-	325,410
	Office equipment - Canada	701,396	(302,045)	399,351
		<u>\$ 66,406,972</u>	<u>(2,901,045)</u>	<u>63,505,927</u>

General and administrative expenses totaling \$115,834 (2006 - \$100,416) that were directly related to exploration and development activities have been capitalized for the six months ended June 30, 2007.

**5) SHARE CAPITAL**

## a) Authorized:

Unlimited Class A and B Common Voting Shares  
 Unlimited Class C Common Non Voting Shares  
 Unlimited Preferred Shares

## b) Issued and outstanding common shares

Common Shares	Number	Amount
Balance as at January 1, 2007	40,056,842	\$ 61,962,901
Underwriters compensation options exercised	78,000	315,120
Reclassification upon exercise of underwriters compensation options	-	118,500
Balance as at June 30, 2007	<u>40,134,842</u>	<u>\$ 62,396,521</u>

During the three months ended June 30, 2007, 78,000 underwriters compensation options were exercised and exchanged into common shares of the Company at a price of \$4.04 per share. As at June 30, 2007, 162,000 underwriters compensation options remain, expiring April 28, 2008.

## c) Options to purchase common shares of Pan Orient

	Number of Shares	Weighted Average Exercise Price
Balance, January 1, 2007	3,793,150	\$ 1.77
Granted	40,000	3.00
Forfeited	(40,000)	(3.00)
Balance, June 30, 2007	<u>3,793,150</u>	<u>\$ 1.77</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A Black-Scholes option pricing model, with the following weighted average assumptions 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	4.50%
Expected lives	5 years
Expected volatility	58%
Dividend per share	0.00%

The weighted average grant date fair value of options issued during 2007 was \$1.64 per option (2006 - \$1.93 per option).

### d) Options to purchase common shares of Andora Energy Corporation ("Andora")

Stock-based compensation expense includes the cost associated with 3,750,000 options that were granted in Andora, a 67 percent owned subsidiary of the Company which entitle the holders to acquire common shares of Andora. A Black-Scholes option pricing model, with assumptions of a 4.5% risk free interest rate, 3 year expected lives, volatility of 20%, and no expected dividends was used to estimate the grant date fair value of the options as \$0.12 per option. The fair value of the Andora options was estimated to be \$400,000, net of expected forfeitures, of which \$300,000 was included as stock-based compensation expense and \$100,000 was capitalized as it related to employees directly involved in exploration and development activities.

### e) Loss per share

The loss per share is based on the six month weighted average shares outstanding of 40,081,836 shares (2006 - 30,506,226 shares).

## 6) SUBSEQUENT EVENTS

### a) Signet Energy Inc.

On May 23, 2007, the Company's subsidiary, Andora Energy Corporation, announced it had entered into a letter of intent to combine with Signet Energy Inc. ("Signet"), a private oil and gas company holding heavy oil interests in Sawn Lake, Alberta. The combination will be effected by way of a plan of arrangement under the *Business Corporations Act* (Alberta) whereby the security holders of Signet will receive, in aggregate, 17,500,000 common shares of Andora (subject to adjustment) with a deemed value of \$50,000,000. The combination is subject to several conditions including the approval of Signet security holders (for which a meeting is scheduled for September 11, 2007), and if successful would decrease Pan Orient's current ownership of Andora from 67% to approximately 48%. Pan Orient also holds warrants to purchase additional common shares of Andora which, if exercised, would result in ownership of 49.4% of the combined company.

### b) Private Placement

On July 13, 2007, the Company issued, by way of a non-brokered private placement, 1.5 million common shares at \$4.25 per share, for gross proceeds of \$6,375,000 (\$6,056,250 net of finders fee paid).



**PAN ORIENT ENERGY CORP.**

1505, 505 - 3rd Street SW, Calgary Alberta Canada T2P 3E6