



**PAN ORIENT ENERGY CORP.**

**2006 CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006**

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

	September 30 2006 (unaudited)	December 31 2005 (audited)
<b><u>ASSETS</u></b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 22,243,811	\$ 8,702,189
Accounts receivable	2,749,868	199,537
	<hr/> 24,993,679	<hr/> 8,901,726
Deposits (Note 3)	486,561	-
Petroleum and natural gas properties (Note 6)	57,296,029	8,638,093
	<hr/> <b>\$ 82,776,269</b>	<hr/> <b>\$ 17,539,819</b>
<b><u>LIABILITIES</u></b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 1,141,072	\$ 758,974
Convertible debentures payable (Note 5)	-	86,162
	<hr/> 1,141,072	<hr/> 845,136
Future income tax (Note 4)	10,262,000	-
Non-controlling interest	10,489,899	326,740
	<hr/> 21,892,971	<hr/> 1,171,876
<b><u>SHAREHOLDERS' EQUITY</u></b>		
SHARE CAPITAL (Note 7)	61,964,830	17,229,589
UNDERWRITERS COMPENSATION OPTIONS (Note 7d)	365,000	-
CONTRIBUTED SURPLUS	1,937,782	683,073
DEFICIT	(3,384,314)	(1,544,719)
	<hr/> 60,883,298	<hr/> 16,367,943
	<hr/> <b>\$ 82,776,269</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)**

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2006	2005	2006	2005
<b>REVENUES</b>				
Oil - Thailand	\$ 263,586	-	825,838	-
Royalties - Thailand	(36,808)	-	(127,130)	-
Interest - Canada	206,823	54,472	497,878	104,362
	<b>433,601</b>	<b>54,472</b>	<b>1,196,586</b>	<b>104,362</b>
<b>EXPENSES</b>				
Stock based compensation (Note 7c)	254,331	96,920	1,254,709	581,520
General and administrative	390,792	110,776	1,032,724	228,420
Depletion, depreciation and accretion	135,205	2,943	399,552	5,886
Production and operating	64,642	-	288,846	-
Foreign exchange loss (gain)	(20,394)	-	60,352	-
	<b>824,576</b>	<b>210,639</b>	<b>3,036,183</b>	<b>815,826</b>
NET LOSS FOR PERIOD	(390,975)	(156,167)	(1,839,597)	(711,464)
DEFICIT, BEGINNING OF PERIOD	(2,993,339)	(984,917)	(1,544,717)	-
ADJUSTMENT TO DEFICIT	-	-	-	(429,620)
DEFICIT, END OF PERIOD	\$ (3,384,314)	(1,141,084)	(3,384,314)	(1,141,084)
LOSS PER SHARE – Basic and Diluted	\$ (0.01)	(0.01)	(0.06)	(0.03)

See accompanying notes to the consolidated financial statements

**PAN ORIENT ENERGY CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
<b>CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (390,975)	(156,167)	(1,839,597)	(711,464)
Items not affecting cash				
Stock based compensation	254,331	96,920	1,254,709	581,520
Depletion, depreciation and accretion	135,205	2,943	399,552	5,886
Unrealized foreign exchange loss (gain)	(20,394)	-	60,352	-
	<b>(21,833)</b>	<b>(56,304)</b>	<b>(124,984)</b>	<b>(124,058)</b>
Change in non-cash working capital	2,598,706	59,584	1,902,014	(300,144)
	<b>2,576,873</b>	<b>3,280</b>	<b>1,777,030</b>	<b>(424,202)</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of Andora	(8,620,621)	-	(8,620,621)	-
Deposits	241,655	-	(486,561)	-
Investment in Tiger	-	(341,617)	-	(621,617)
Petroleum and natural gas properties	(2,312,127)	(252,922)	(7,094,051)	(906,079)
Cash acquired on reverse take-over	-	-	-	407
	<b>(10,691,093)</b>	<b>(594,539)</b>	<b>(16,201,233)</b>	<b>(1,527,289)</b>
<b>FINANCING ACTIVITIES</b>				
Issue of common shares, net of share issue costs	(31,030)	-	28,051,987	5,866,972
Convertible debentures	-	-	(86,162)	-
	<b>(31,030)</b>	<b>-</b>	<b>27,965,825</b>	<b>5,866,972</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>(8,145,250)</b>	<b>(591,259)</b>	<b>(13,541,622)</b>	<b>3,915,481</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>30,389,061</b>	<b>10,095,875</b>	<b>8,702,189</b>	<b>5,589,135</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 22,243,811</b>	<b>9,504,616</b>	<b>22,243,811</b>	<b>9,504,616</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 properties in Northern Alberta and actively pursues opportunities in Asia for the acquisition of oil and natural gas exploration acreage.

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. 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 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.

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"), and as such the accounts of Tiger are included in the Pan Orient financial statements from October 21, 2005, forward. On January 19, 2006, the remaining 8% of the Tiger shares were acquired.

In the third quarter of 2006, Pan Orient acquired 67% of the issued and outstanding shares of Andora Energy Corporation ("Andora"), and as such the accounts of Andora are included in the Pan Orient financial statements as at September 30, 2006. As a result of other parties owning the remaining 33% of Andora, Pan Orient's financial statements record a non-controlling interest representing the portion of assets and liabilities not owned by Pan Orient. Pan Orient has not recorded the net loss of Andora for the three months ended September 30, 2006, as the amount is not significant.

**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**

Cash deposits secure issued letters of credit. The letters of credit have been issued to the Thai government relating to importation permits.

**PAN ORIENT ENERGY CORP.**

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

**4) ANDORA ACQUISITION**

During the three months ended September 30, 2006 the company acquired 67 percent of the issued and outstanding shares of Andora. This was done via a series of transactions resulting in: (i) the disposition of the Company's Canadian oil and natural gas properties (Sawn Lake assets) in exchange for 10,000,000 shares of Andora; (ii) the Company subscribing for 4,981,481 Andora common shares for \$6,275,000 cash; and (iii) the Company acquiring an additional 13,414,634 Andora common shares from existing Andora common shareholders for consideration of \$2,145,621 in cash and the issuance of 4,257,222 Pan Orient shares. Andora is a private oil and gas company with oil sand leases in the Sawn Lake area of Northern Alberta. The Company's 100% owned subsidiary (Pan Orient Energy Ltd.) and Andora then amalgamated, immediately prior to which time all of Pan Orient Energy Ltd.'s remaining assets were transferred to the Company. In conjunction with (ii) above, the Company received warrants to purchase an additional 2,250,000 common shares of Andora for \$3,600,000 (\$1.60 per share). These shares would represent an additional 5 percent of Andora.

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

**Consideration**

Shares issued	\$ 15,751,271
Petroleum and natural gas properties sold for Andora Shares	1,573,508
Cash paid for Andora Shares	8,420,621
Acquisition costs	200,000
	<hr/>
	\$ 25,945,400
	<hr/> <hr/>

**Purchase Price at Fair Value**

Petroleum and natural gas properties	\$ 43,008,328
Working capital deficit	(2,585,577)
Future income tax liability	(10,262,000)
Non controlling interest	(4,215,351)
	<hr/>
	\$ 25,945,400
	<hr/> <hr/>

**5) 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 remaining 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, \$86,162 of outstanding Tiger convertible debentures, representing all remaining Tiger convertible debentures, were retired for cash.

**PAN ORIENT ENERGY CORP.**

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

**6) PETROLEUM AND NATURAL GAS PROPERTIES**

		Cost	Accumulated Amortization	Net Book Value
2006	Canada	\$ 43,066,232	-	43,066,232
	Thailand	13,905,464	(339,000)	13,566,464
	India	360,580	-	360,580
	Office equipment - Canada	434,305	(131,552)	302,753
		<u>\$ 57,766,581</u>	<u>(470,552)</u>	<u>57,296,029</u>

General and administrative costs totaling \$141,666 that were directly related to exploration and development activities have been capitalized for the nine months ended September 30, 2006.

**7) SHARE CAPITAL**

a) Authorized:

Unlimited Class A and B Common Voting Shares

Unlimited Class C Common Non Voting Shares

Unlimited Preferred Shares

b) Issued - Class A Common Shares

	Number of Shares	Amount
Balance as at December 31, 2005	27,362,810	\$ 17,229,589
Shares issued on Tiger acquisition (Note 4)	319,163	855,357
Issued for Tiger litigation settlements	117,647	441,176
Issued for cash	8,000,000	30,000,000
Issued for Andora acquisition	4,257,222	15,751,721
Less: Share issue costs		
- cash	-	(1,948,013)
- compensation options (Note 7d)	-	(365,000)
Balance as at September 30, 2006	<u>40,056,842</u>	<u>\$ 61,964,830</u>

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	1,043,150	3.42
Balance, September 30, 2006	<u>3,393,150</u>	<u>\$ 1.59</u>

**PAN ORIENT ENERGY CORP.**

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

Black-Scholes option pricing model, with the following weighted average assumptions for the nine months ended September 30, 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	62%
Dividend per share	0.00%

The weighted average grant date fair value of options issued during 2006 was \$1.93 per option.

**d) Underwriters compensation options**

In conjunction with the Company's \$30,000,000 April 2006 financing (8,000,000 shares at \$3.75 per share) the underwriting syndicate was granted 240,000 compensation options. The compensation options expire on April 28, 2008 and are exercisable at a price of \$4.04 per option. A Black-Sholes option pricing model with a 2 year expected life, a 4.5% risk free interest rate and expected volatility of 64% was used to value the compensation options at \$1.52 per option, for a total amount of \$365,000.

**e) Loss per share**

The loss per share is based on the nine month weighted average shares outstanding of 32,433,717.

**8) RELATED PARTY TRANSACTIONS**

During the first nine months of 2006, the Company paid to its officers, either directly, or indirectly to companies controlled by them, \$262,500 (2005 - \$260,500) 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.





**PAN ORIENT ENERGY CORP.**

650, 101 - 6th Avenue SW, Calgary Alberta Canada T2P 3P4