



PAN ORIENT ENERGY CORP.

2006 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

Management is responsible for the integrity and objectivity of the financial statements. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgment, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined in the notes to the consolidated financial statements.

Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and the financial information is reliable and accurate.

The consolidated financial statements have been examined by external auditors. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition of the Company.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

(signed "Jeff Chisholm")

Jeff Chisholm

President & Chief Executive Officer

(signed "Jason Bednar")

Jason Bednar

Vice President, Finance & Chief Financial Officer

May 1, 2007

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Pan Orient Energy Corp. as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(*signed "KPMG LLP"*)
Chartered Accountants

Calgary, Canada
May 1, 2007

PAN ORIENT ENERGY CORP.
CONSOLIDATED BALANCE SHEETS

	December 31 2006	December 31 2005
<u>ASSETS</u>		
CURRENT		
Cash and cash equivalents	\$ 16,121,554	\$ 8,702,189
Accounts receivable	2,925,414	199,537
	<hr/> 19,046,968	<hr/> 8,901,726
Deposits (Note 3)	1,144,188	-
Petroleum and natural gas properties (Note 6)	58,652,742	8,638,093
	<hr/> \$ 78,843,898	<hr/> \$ 17,539,819
<u>LIABILITIES</u>		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,952,070	\$ 758,974
Convertible debentures payable (Note 4)	-	86,162
	<hr/> 1,952,070	<hr/> 845,136
Non-controlling interest (Notes 4 and 5)	7,726,888	326,740
Future income taxes	8,192,052	-
Asset retirement obligation (Note 7)	20,001	-
	<hr/> 17,891,011	<hr/> 1,171,876
<u>SHAREHOLDERS' EQUITY</u>		
SHARE CAPITAL (Note 8)	61,962,901	17,229,589
UNDERWRITERS COMPENSATION OPTIONS (Note 8d)	365,000	-
CONTRIBUTED SURPLUS	2,456,194	683,073
DEFICIT	(3,831,208)	(1,544,719)
	<hr/> 60,952,887	<hr/> 16,367,943
Commitments (Note 11)		
Subsequent event (Note 12)		
	<hr/> \$ 78,843,898	<hr/> \$ 17,539,819

See accompanying notes to the consolidated financial statements

Approved on behalf of The Board:

(signed "Michael Hibberd")

Director

(signed "Cam Taylor")

Director

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

	Year Ended December 31 2006	Year Ended December 31 2005
REVENUES		
Oil - Thailand	\$ 1,256,447	\$ 274,963
Royalties - Thailand	(179,280)	(33,288)
Interest - Canada	704,827	165,885
	<hr/> 1,781,994	<hr/> 407,560
EXPENSES		
Stock based compensation (Note 8c)	1,773,121	683,073
General and administrative	1,743,260	401,619
Depletion, depreciation and accretion	843,863	103,940
Production and operating	824,206	67,969
Foreign new ventures expenditures	126,297	257,601
Interest on convertible debentures	-	4,017
Foreign exchange gain	(141,125)	-
	<hr/> 5,169,622	<hr/> 1,518,219
LOSS BEFORE TAXES AND NON-CONTROLLING INTEREST	(3,387,628)	(1,110,659)
FUTURE INCOME TAX REDUCTION	1,072,000	-
NON-CONTROLLING INTEREST	29,139	(4,440)
	<hr/> (2,286,489)	<hr/> (1,115,099)
NET LOSS FOR THE YEAR		
DEFICIT, BEGINNING OF YEAR	(1,544,719)	-
REVERSE TAKE OVER ADJUSTMENT (Note 1)	-	(429,620)
	<hr/> \$ (3,831,208)	<hr/> \$ (1,544,719)
DEFICIT, END OF YEAR		
LOSS PER SHARE - Basic and Diluted	\$ (0.07)	\$ (0.05)

See accompanying notes to the consolidated financial statements

PAN ORIENT ENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31 2006	Year Ended December 31 2005
CASH PROVIDED BY (USED IN)		
<u>OPERATING ACTIVITIES</u>		
Net loss	\$ (2,286,489)	\$ (1,115,099)
Items not affecting cash		
Stock based compensation	1,773,121	683,073
Future income tax reduction	(1,072,000)	-
Depletion, depreciation and accretion	843,863	103,940
Unrealized foreign exchange gain	(141,125)	-
Non-controlling interest	(29,139)	4,440
	<hr/>	<hr/>
	(911,769)	(323,646)
Change in non-cash working capital	(212,781)	104,967
	<hr/>	<hr/>
	(1,124,550)	(218,679)
 <u>INVESTING ACTIVITIES</u>		
Acquisition of Andora Energy Corporation (Note 5)	(8,846,947)	-
Deposits	(1,144,188)	-
Acquisition of Tiger Petroleum Inc., net of cash acquired (Note 4)	-	(1,391,565)
Petroleum and natural gas properties	(11,344,224)	(1,143,674)
Change in non-cash working capital	1,915,378	-
	<hr/>	<hr/>
	(19,419,981)	(2,535,239)
 <u>FINANCING ACTIVITIES</u>		
Issue of common shares, net of share issue costs	28,050,058	5,866,972
Convertible debentures	(86,162)	-
	<hr/>	<hr/>
	27,963,896	5,866,972
 <hr/>		
INCREASE IN CASH	7,419,365	3,113,054
CASH, BEGINNING OF YEAR	8,702,189	5,589,135
	<hr/>	<hr/>
CASH, END OF YEAR	\$ 16,121,554	\$ 8,702,189
	<hr/>	<hr/>

See accompanying notes to the consolidated financial statements

PAN ORIENT ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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. In addition, the Company is pursuing other oil and natural gas exploration acreage in Asia.

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 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 from September 20, 2006 forward. Pan Orient's financial statements record a non-controlling interest representing the 33% portion of assets and liabilities not owned by Pan Orient.

2) SIGNIFICANT ACCOUNTING POLICIES

a) PRINCIPLES OF CONSOLIDATION

In 2006, the consolidated financial statements include the accounts of Pan Orient and the accounts of its subsidiaries, all of which are wholly owned except for Andora which is approximately 67% owned by Pan Orient. In 2005, the consolidated financial statements included the accounts of Pan Orient and all of its wholly owned subsidiaries, except for Tiger of which 92% was owned by Pan Orient.

b) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of balances with banks and investments in highly liquid short-term deposits with an original maturity date of less than ninety days.

c) PETROLEUM AND NATURAL GAS PROPERTIES

The Company follows the full cost method of accounting for petroleum and natural gas properties and related expenses whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized and accumulated in country-by-country cost centres. Such costs include royalty acquisition, land acquisition, geological and geophysical, carrying charges of non producing wells and general administrative costs.

PAN ORIENT ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Costs associated with the investigating, bidding and acquiring petroleum properties are expensed prior to obtaining a petroleum lease or concession. Costs may be deferred on projects for which a bid is outstanding or for seismic and related costs in an area that the Company has existing plans to bid or negotiate a concession.

Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

The costs in cost centres from which there has been no commercial production are not subject to depletion until commercial production commences. Depletion is provided on costs accumulated using the unit-of-production method. For purposes of the depletion calculation, gross proved oil and gas reserves, as determined by engineering consultants, are used and converted to a common unit of measure based on their approximate energy content of six thousand cubic feet of natural gas to one barrel of crude oil.

The costs in cost centres from which there has been no commercial production are periodically assessed to determine whether it is likely such costs will be recovered in the future. To the extent there are costs which are not likely to be recovered in the future, they are written off. Petroleum and natural gas properties, for which there has been commercial production, are subject to a ceiling test in each reporting period to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying values of the petroleum and natural gas properties. If the carrying value of the petroleum and natural gas properties is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds an estimated fair value. The fair value estimate is normally based on the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using forecast product prices and costs and are discounted using a risk-free interest rate.

d) ASSET RETIREMENT OBLIGATIONS

The Company recognizes the fair value of obligations associated with the retirement of long-lived assets in the period the asset is put to use, with the corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to asset retirement accretion, which is included in depletion, amortization and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depreciation and amortization of the underlying assets. Revisions to the estimated timing of cash flows or to the original estimated undiscounted costs could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

e) JOINT OPERATIONS

The Company conducts substantially all its oil and gas exploration and production activities with others. The financial statements reflect only the Company's interest in such activities.

f) INCOME TAXES

The Company follows the asset and liability method of accounting for income taxes. Under this method, temporary differences arising from the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

PAN ORIENT ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

g) ESTIMATES

The balance sheet is prepared in accordance with Canadian generally accepted accounting principles. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. By their nature, these estimates are subject to measurement uncertainty and the effect on the balance sheet of changes in such estimates in future periods could be significant. These estimates are primarily related to cost recovery tests and ceiling tests which are based upon estimates of market values of unproven properties, proven and probable reserves, petroleum prices, future costs and other assumptions.

h) FOREIGN CURRENCY TRANSLATION

The Company's foreign operations are considered to be integrated and are translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities are translated at the year-end current exchange rate and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net income.

Transactions denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Gains and losses on translation or settlement are included in net income.

i) STOCK BASED COMPENSATION

The Company accounts for all stock options and warrants granted using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with corresponding credit to contributed surplus.

Consideration received upon the exercise of stock options together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as share capital.

j) PER SHARE AMOUNTS

Basic per share amounts are computed by dividing the earnings or loss by the weighted average shares outstanding during the reporting period. Diluted amounts are computed using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of in-the-money options and warrants are used to repurchase shares at the average market price for the period. The difference between the number of shares that could have been purchased at market prices in the period and the number of in-the-money options warrants is added to the weighted average shares outstanding.

k) REVENUE RECOGNITION

Revenue from the sale of oil is recognized when the product is delivered.

3) DEPOSITS

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**

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

4) TIGER ACQUISITION

On October 21, 2005 Pan Orient acquired approximately 92 percent of the issued and outstanding shares of Tiger, an oil and gas company with operations in Thailand, and retired \$1,155,178 of existing Tiger convertible debentures. Under the terms of the offer, each 4.25 Tiger shares were entitled to receive 1 Pan Orient share. Tiger convertible debenture holders were entitled to receive either i) cash consideration at face value plus accrued interest or ii) 870 Pan Orient shares for every \$1,000 of principle and accrued interest.

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

Consideration

Shares issued	\$ 4,843,809
Petroleum and natural gas properties sold for Andora Shares	439,120
Cash paid for Andora Shares	280,000
Acquisition costs	1,173,081
	<hr/>
	\$ 6,736,010

Purchase Price at Fair Value

Property and equipment	\$ 6,473,510
Working capital (including cash of \$500,636)	348,662
Convertible debentures	(86,162)
	<hr/>
	\$ 6,736,010

At December 31, 2005, 8 percent of the Tiger shares held by others are reflected as non-controlling interest. During the first quarter of 2006, these shares were acquired in exchange for 319,163 shares of Pan Orient and the remaining \$86,162 of outstanding convertible debentures were retired for cash.

5) ANDORA ACQUISITION

During the three months ended September 30, 2006 the Company acquired 67 percent of the issued and outstanding shares of Andora. Andora is a private oil and gas company with oilsands leases in the Sawn Lake area of Northern Alberta. The acquisition was completed through 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 acquiring 4,981,481 Andora common shares from treasury for \$6,275,000 cash; and (iii) the Company acquiring 13,414,634 Andora common shares from existing Andora common shareholders for \$2,145,621 in cash and the issuance of 4,257,222 Pan Orient shares. As part of the transaction, the Company's wholly owned subsidiary (Pan Orient Energy Ltd.) and Andora 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 warrants allow the Company to acquire an additional 5 percent of Andora.

PAN ORIENT ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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 Paid

Shares issued to Andora shareholders	\$ 15,751,721
Shares acquired from treasury, cash	6,275,000
Shares acquired from Andora shareholders, cash	2,145,621
Pan Orient's 10 percent Sawn Lake interest, at cost	1,564,965
Acquisition costs	426,326
	\$ 26,163,633

Purchase Price at Fair Value

Property and equipment	\$ 39,514,288
Working capital deficit	(2,585,577)
Future income tax liability	(9,264,052)
Asset retirement obligation	(20,001)
Non-controlling interest	(1,481,025)
	\$ 26,163,633

At December 31, 2006, the Andora shares held by others (33 percent) are reflected as non-controlling interest.

6) PETROLEUM AND NATURAL GAS PROPERTIES

		Cost	Accumulated Amortization	Net Book Value
2006	Canada	\$ 42,563,139	-	42,563,139
	Thailand	16,171,760	(749,000)	15,422,760
	India	329,521	-	329,521
	Office equipment - Canada	535,524	(198,202)	337,322
		\$ 59,599,944	(947,202)	58,652,742
2005	Canada	\$ 1,339,635	-	1,339,635
	Thailand	6,895,676	(71,000)	6,824,676
	India	229,172	-	229,172
	Office equipment - Canada	277,550	(32,940)	244,610
		\$ 8,742,033	(103,940)	8,638,093

PAN ORIENT ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

General and administrative expenses totaling \$182,916 (2005 - \$246,319) that were directly related to exploration and development activities have been capitalized for the year ended December 31, 2006.

Costs associated with unproven properties of \$3.5 million (2005 - nil) have been excluded from the depletion calculation.

For the year ended December 31, 2006, no ceiling test writedown was required for the Company's Thailand properties. The benchmark prices for which the ceiling test was based, are as follows:

2007:	US\$ 62.50 / barrel WTI
2008:	US\$ 61.20 / barrel WTI
2009:	US\$ 59.80 / barrel WTI
2010:	US\$ 58.40 / barrel WTI
2011:	US\$ 56.80 / barrel WTI
After that:	+2% per annum

The carrying value of the Company's unproven Canadian and Indian properties are expected to be recoverable and as such no writedown was required.

7) ASSET RETIREMENT OBLIGATION

The Company estimates the total undiscounted amount of cash flows required to settle its Canadian asset retirement obligation is approximately \$100,000 which will be incurred in approximately 20 years. A discount rate of 8.5% and an inflation rate of 2% was used to estimate the asset retirement obligation.

8) SHARE CAPITAL

a) Authorized

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

PAN ORIENT ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

b) Issued and outstanding common shares

Common Shares	Number	Amount
Balance, January 1, 2005, Pan Orient Energy Ltd.	13,686,130	\$ 6,391,308
Pan Orient Energy Ltd. shares		
issued on February 2005 financings	2,584,669	1,935,718
Pan Orient Energy Corp. shares issued and		
Outstanding at April 8, 2005	1,108,000	-
Shares issued on April 8, 2005 financings	5,999,989	4,499,992
Shares issued for convertible debentures	36,666	27,500
Shares Issued for amounts owing to related parties	133,333	100,000
Shares issued for amounts owing to related parties	133,333	100,000
Shares issued on Tiger acquisition (Note 4)	3,814,023	4,843,809
Less: Share issue costs	-	(568,738)
Balance as at January 1, 2006	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	-	(1,949,942)
- compensation options (Note 8d)	-	(365,000)
Balance as at December 31, 2006	40,056,842	\$ 61,962,901

2006 Financing

On April 28, 2006, the Company issued 8,000,000 common shares at a price of \$3.75 per common share, for gross proceeds of \$30,000,000 (\$28,050,058) net of commissions and associated costs.

2005 Financings

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. The acquisition agreement between the two companies called for a one for one share exchange.

In connection with the completion of the reverse take-over, Pan Orient completed two financings totaling \$4,499,992: (a) a private placement financing for the issuance of 3,333,324 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 short form offering document financing for the issuance of 2,666,666 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 also completed a financing under similar terms in February 2005 for gross proceeds of \$1,935,718.

PAN ORIENT ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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 during 2005: (a) \$27,500 of convertible debentures and (b) \$100,000 of amounts due to related parties.

c) Options to purchase common shares	Number of Shares	Weighted Average Exercise Price
Balance, January 1, 2005	-	\$ -
Granted	2,416,667	0.78
Forfeited	(66,667)	(0.75)
Balance, January 1, 2006	2,350,000	\$0.78
Granted	1,443,150	3.53
Balance, December 31, 2006	3,793,150	1.77

Options Outstanding			Options Exercisable		
Exercise Price	Number of Options	Weighted Average Remaining Contractual (years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$ 0.75	2,283,334	3.4	\$ 0.75	1,522,223	\$ 0.75
1.80 - 2.08	99,816	4.1	1.89	33,272	1.89
2.75 - 3.90	1,410,000	4.5	3.40	386,667	3.49
\$ 0.75 - 3.90	3,793,150	3.8	\$ 1.77	1,942,162	\$ 1.30

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.

	<u>2006</u>	<u>2005</u>
Risk free interest rate	4.50%	4.00%
Expected lives	5 years	5 years
Expected volatility	61%	91%
Dividend per share	0.00%	0.00%

The weighted average grant date fair value of options issued during 2006 was \$1.90 per option (2005 - \$0.56).

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-Scholes option pricing model with a 2 year expected life, a 4.5% risk free interest rate and expected volatility of 64% was used to estimate the value of the compensation options at \$1.52 per option, for a total amount of \$365,000.

PAN ORIENT ENERGY CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

e) Escrowed securities

Included in the shares outstanding at December 31, 2006 are a total of 2,013,750 shares owned by directors, officers and certain non-management shareholders of Pan Orient which are subject to escrow restrictions, either voluntary or those imposed by the TSXV. These shares will be releasable from escrow as to one third in each of April 2007, October 2007, and April 2008. The depository for the escrowed shares is Valiant Trust Company.

e) Loss per share

The loss per share is based on the weighted average of shares outstanding for the year of 34,376,370 shares (2005-21,948,448 shares).

9) INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian federal and provincial statutory income tax rates to the loss for the year as follows:

	2006	2005
Loss before taxes and non-controlling interest	\$ (3,387,628)	\$ (1,115,099)
Statutory tax rate in Canada	34.5%	37.6%
Expected income tax recovery at statutory rate	(1,169,000)	(419,000)
Decrease (increase) resulting from:		
Non-deductible stock-based compensation expense	612,000	257,000
Record benefit of previously unrecognized tax assets	(850,000)	-
Change in valuation allowance and other	335,000	162,000
	<u>\$ (1,072,000)</u>	<u>\$ -</u>

The components of the net future income tax asset (liability) at December 31 are summarized below:

	2006	2005
Operating losses (expire up to 2016)	\$ 2,655,000	\$ 2,094,000
Petroleum and natural gas properties	(11,415,052)	(927,000)
Share issue costs	630,000	357,000
	<u>(8,130,052)</u>	<u>1,524,000</u>
Less: valuation allowance	(62,000)	(1,524,000)
	<u>\$ (8,192,052)</u>	<u>\$ -</u>

PAN ORIENT ENERGY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

10) FINANCIAL INSTRUMENTS

The Company is exposed to foreign currency fluctuations as it holds US dollar and Thai baht cash and cash equivalents and accounts receivable and has obligations denominated in baht and US dollars. In addition, a portion of the Company's costs are incurred in each of the above currencies. There are no exchange rate contracts in place.

The fair value of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short terms to maturity.

11) COMMITMENTS

The Company has entered into agreements to lease premises in both Canada and Thailand, requiring future minimum payments totaling approximately \$1.1 million. Minimum annual payments during the next five fiscal years are as follows:

2007	\$ 180,570
2008	\$ 187,463
2009	\$ 163,288
2010	\$ 142,680
2011	\$ 142,680

The Company also has a commitment to spend \$500,000 USD on its Thai blocks during the first 6 months of 2007.

12) SUBSEQUENT EVENT

On January 9, 2007, the Company signed a new concession agreement with the government of Thailand for block L53/48, located onshore Thailand. The concession agreement includes a minimum three year first exploration phase commitment of \$1,870,000 USD, for which the Company posted a standby letter of credit, secured by cash, in 2007.

13) 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 67% owned subsidiary Andora.

2006	Canada	Thailand	Total
Revenue	\$ 704,827	\$ 1,256,447	\$ 1,961,274
Net Loss	(1,299,792)	(986,697)	(2,286,489)
Depletion, depreciation and accretion	165,863	678,000	843,863
Total assets	60,098,454	18,745,444	78,843,898
Capital expenditures for the year	41,581,827	9,276,084	50,857,911



PAN ORIENT ENERGY CORP.

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