



PAN ORIENT ENERGY CORP.

2006 MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the three months ended March 30, 2006 and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2005. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

The MD&A contains forward-looking information regarding the Company. Because forward-looking information addresses future events and conditions, it involves risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking information. These risks and uncertainties include, but are not limited to: commodity price levels; production levels; royalty and depletion rates; the recoverability of reserves; transportation availability and costs; operating and other costs; interest rates and currency exchanges rates; and changes in environmental and other legislation and regulations.

Pan Orient Energy Corp. ("Pan Orient" or the "Company") is a junior oil and natural gas company based in Calgary, Alberta, which holds properties in northern Alberta and onshore Thailand and actively pursues opportunities in Asia for the acquisition of exploration acreage and exploration of oil and natural gas.

On April 8, 2005, Pan Orient Energy Corp. (formerly Welwyn Resources Ltd.) acquired of 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 financial statements for the three months ended March 31, 2005, 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 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"), as such the accounts of Tiger are included in the financial statements from October 21, 2005, forward.

Selected Quarterly Information

	2006		2005		
	Q1	Q4	Q3	Q2	Q1
Revenues					
Oil - Thailand	\$ 297,081	274,963	-	-	-
Royalties - Thailand	(53,075)	(33,288)	-	-	-
Interest - Canada	43,084	61,523	54,472	49,890	-
	<u>287,090</u>	<u>303,198</u>	<u>54,472</u>	<u>49,890</u>	<u>-</u>
Expenses					
Stock based compensation	323,354	101,553	96,920	484,600	-
General and administrative	209,491	173,199	110,776	117,644	-
Foreign new ventures expenditures	-	257,601	-	-	-
DD & A	143,609	98,054	2,943	2,943	-
Production and operating	109,171	67,969	-	-	-
Non-controlling interest	-	4,440	-	-	-
Interest on convertible debentures	-	4,017	-	-	-
Foreign exchange loss	29,093	-	-	-	-
	<u>\$ 814,718</u>	<u>706,833</u>	<u>210,639</u>	<u>605,187</u>	<u>-</u>
Net loss	<u>527,628</u>	<u>(403,635)</u>	<u>(156,167)</u>	<u>(555,297)</u>	<u>-</u>
Loss per share	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.01)</u>	<u>(0.02)</u>	<u>-</u>

The Company recorded gross revenues of \$340,165 for the three months ended March 31, 2006. Oil revenues from Thailand oil production of 60 bbl/d, net to Pan Orient, totaled \$297,081, or \$55.24/bbl. Oil revenues are expected to increase substantially once the Company initiates its multi-well drilling program scheduled to begin in late June 2006. Royalty expenses on the Thailand oil production were \$53,075, and include a prior period adjustment of approximately \$12,000. The included government royalty is 5% of production up to 2,000 bbl/d, and increases to 6.25 % for production between 2,000 bbl/d and 5,000 bbl/d. Also included in the royalty expense is a gross overriding royalty that is expected to average between 8% and 10% within the small area of existing production. Drilling outside of this overriding royalty encumbered area will only be subject to the government royalty. Also included in revenue is interest income of \$43,084 for the quarter, earned on the Company's cash deposits.

On April 28, 2006, Pan Orient announced the issue of 8,000,000 common shares, at a price of \$3.75 per share, for total gross proceeds of \$30,000,000 (approximately \$28,200,000 net of commissions). At June 1, 2006 the Company has over \$31,000,000 of uncommitted cash which is expected to yield initial annualized interest of over \$1,000,000.

General and administrative expenses for the first quarter of 2006 totaled \$209,491. An additional \$25,000 directly relating to exploration and development expenses were capitalized.

First quarter 2006 non-cash stock based compensation expense was \$323,354. As required under Canadian GAAP, the Company uses the fair value method to account for its stock based compensation.

First quarter 2006 Thailand production and operating costs totaled \$109,171 (\$20.30/bbl), including approximately \$30,000 (\$5.58/bbl) in non-recurring well workover expenses. A large component of these costs are fixed, and as such the per barrel production and operating costs are expected to be reduced as production increases after the summer drilling program in Thailand.

Depletion, depreciation and accretion (DD&A) totaled \$143,609 (\$26.70/bbl) for the period. The largest component was depletion (\$104,000) related to Thailand oil production. The 2006 DD&A per barrel is expected to decrease if the Company is successful in converting probable reserves on the Thai properties into proven reserves.

On March 30, 2006 Pan Orient paid out the remaining \$86,162 of previously existing Tiger convertible debentures.

A significant portion of the quarter's loss of \$527,628 (\$0.02 per share) is attributable to non-cash expenses of stock based compensation (\$323,354) and DD&A (\$143,609).

During the first three months of 2006, the Company paid its officers, either directly or indirectly to Companies controlled by them, \$47,500 (2005-\$89,500) for consulting and management services.

On October 21, 2005 Pan Orient acquired approximately 92 percent of the issued and outstanding shares of Tiger. The remaining 8 percent of Tiger shares were acquired in the first quarter of 2006, in exchange for 319,163 Pan Orient common shares, under the compulsory acquisition provisions contained in the Quebec Companies Act, and the Tiger shares were delisted from TSX venture exchange. Included on the Company's 2005 balance sheet is a non-controlling interest value related to the final 8 percent of shares that were acquired in January 2006.

At June 1, 2006, Pan Orient has over \$31,000,000 of uncommitted available cash:

- for exploration and development activities on its two existing concessions in Thailand,
- to fund the Company's proposed three year firm work program on a new Thai concession (contingent on the pending award),
- for further drilling and development of the Company's Sawn Lake interest,
- for continued new venture activities focused on Thailand, India, Indonesia, and China.

If the Company requires additional capital beyond its existing cash it would likely be provided through additional equity financing.

The Company is listed on the TSX Venture Exchange. The fully-diluted number of common shares outstanding at the following dates were:

<u>Shares Outstanding</u>	May 31 2006	March 31 2006
Common shares	35,799,620	27,681,973
Employee stock options	3,393,150	2,768,150
Broker compensation options	240,000	-
Fully-diluted shares outstanding	<u>39,432,770</u>	<u>30,450,123</u>

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, environmental and safety risks, and risks associated with the foreign jurisdiction in which it operates. In order to mitigate these risks, the Company has an experienced base of qualified personnel, technical and financial in both Canada and Thailand, and maintains an insurance program that is consistent with industry standards. Further, the Company has focused its foreign operations in a known hydrocarbon basin in a jurisdiction that has previously established long-term oil and gas ventures with foreign oil and gas companies.

ADDITIONAL INFORMATION

Additional information relating to the Company can also be found on SEDAR at www.sedar.com.



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