PACIFIC ENERGY RESOURCES LTD.

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The *e*Research Analysts that were responsible for researching, analyzing, and writing this report are Eugene Bukoveczky MBA, CFA and Bob Weir, B.Sc., B.Comm., CFA. The Analysts acknowledge that the opinions, recommendations, and share price objectives contained in this report are strictly those of the Analysts and that they accurately reflect the Analysts' personal views about the Company and its securities.

D&D Securities Company

Initiating Report

February 7, 2008

PACIFIC ENERGY RESOURCES LTD.

(TSX: PFE, $1.73)

Data Source: www.BigCharts.com

Recommendation
Buy

Risk
Medium

Target Price
1-Year: $3.40
3-Year: $5.15

Price (Feb. 4)
$1.73

52-Week Range
$3.75-$1.30

Potential Return
1-Year: 96%
3-Year: 198%

Shares O/S
197.2 million (basic)
305.0 million (fully-diluted)

Market Cap
$248 million

Average Daily Volume
20-day: 61,098
150-day: 85,882

Year-End
December 31

US$	BVPS	CFPS
2006A	$1.25	$0.08
2007E	$0.70	$0.12
2008E	$0.76	$0.36
2009E	$0.89	$0.58

BVPS: Book Value Per Share
CFPS: Cash Flow Per Share

Analysts
Eugene Bukoveczky, MBA, CFA
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RECOMMENDATION

We recommend the shares of Pacific Energy Resources Ltd. ("Pacific Energy" or the "Company") as a Buy with a one-year Target Price of $3.40, based on the Company's established and growing production base, and the potential value associated with its high-impact exploration prospects. Looking ahead, our three-year price objective is $5.15.

PROFILE

Pacific Energy Resources Ltd. is an independent oil and gas production and development company with an established and growing oil production base and promising natural gas exploration prospects. The Company's operations are in California, Wyoming, and Alaska.

HIGHLIGHTS

- Well-defined, long-lived oil reserves.
- Established and growing production.
- High-impact oil & gas exploration prospects.
- Aggressive management with large deal execution ability.
- Access to significant external funding sources.
- High debt-servicing costs.
- Significant share dilution effect.

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THE COMPANY

Pacific Energy Resources Ltd. is an independent oil and gas production and development company with operations in California, Wyoming, and Alaska. The Company's headquarters are in Long Beach, California.

BACKGROUND

Originally incorporated as Yucana Oil Ltd., Pacific Energy Resources Ltd. began its activities in the oil and gas industry with the acquisition of an interest in a producing oil property in the Los Angeles Basin, California. Since then, the Company has made significant oil and gas investments in the United States, the most recent of which have been company defining in terms of their scale.

Pacific Energy's principal offices are currently located in Long Beach, California.

Senior principals Vladimir and Darren Katic have a proven track record in materially boosting production from mature underdeveloped oil fields. During the 1990s, Nations Energy, a company founded by the Katics, acquired the Karazhanbas field in Kazakhstan, drilled new wells, upgraded existing wells and added new production facilities such that, when it was sold to Chinese energy conglomerate, CITIC, for US$1.91 billion in 2006, it had proven oil reserves exceeding 340 million barrels, and production of over 50,000 barrels of oil a day.

In March 2006, Pacific Energy's shares were listed for trading on The Toronto Stock Exchange (TSX), under the symbol PFE. While the shares are currently not listed on any national United States securities exchange, the Company is actively pursuing a listing on either the American Stock Exchange (AMEX) or NASDAQ. The first step in that process, the filing of an S-1 registration statement with the U.S. Securities & Exchange Commission, is expected shortly. The S-1 is complete and undergoing final audit and legal review. A pre-filing letter has been received from the SEC. Once submitted, the S-1 will likely be subject to a full 90-day review. Therefore, the Company does not expect a U.S. exchange listing until sometime in the second half of 2008.

STRATEGY

The Company is primarily engaged in the medium-risk strategy of acquiring and re-developing mature oil properties with existing production and which have experienced extended periods of under-investment by their previous owners. Upon acquisition the Company undertakes to increase production materially by utilizing Enhanced Oil Recovery (EOR) techniques, such as water-flood, steam injection and infill drilling. The Company also participates, when the opportunity arises, in high-impact exploration projects.

INVESTMENT CONSIDERATIONS

1. Positives

- Production is expected to more than double in 2008, increasing to an average of over 11,000 Bbl/d. As a result, cash flow from operations is forecast to increase three-fold from US$20.1 million ($0.12/share) in 2007 to US$66.2 million ($0.34/share) in 2008.
- Drillable exploration prospects could potentially add over 217 million BOE, valued at US$1.7 billion (or $7.85 per share in PV-10 value unrisked) over the next two years.
- The equity injection resulting from the recent warrant exercise (see Recent Developments section) should permit an additional debt reduction payment of $40 million in 2008. The resulting reduction in the debt/cash flow ratio from 22.9x to 6.4x should reduce investor concerns regarding what has been thus far perceived as an excessive degree of leverage in the firm's capital structure.

2. Negatives

- The Company has experienced unprecedented growth over the last 12 months resulting from two major acquisitions. Significant organizational challenges now exist with respect to the Company's ambitious exploration and development program. The cancellation or delay of any one of a number of key elements in the program could adversely impact investor confidence in management's capacity to manage a much larger organization.
- Weighted average debt costs are still relatively high, estimated at approximately 10%. Currently unsettled credit market conditions will make it excessively difficult to negotiate a refinancing to a lower rate.
- Control of the Company appears to be highly concentrated in the persons of the two senior principals, Vladimir Katic and Darren Katic. The unforeseen incapacity of either individual could have a negative impact on the Company's performance.

RECENT DEVELOPMENTS

1. Equity Financing

On January 23, 2008, the Company announced that it had raised approximately US$20.7 million through the issue of an aggregate of 12,171,006 shares of common stock and 12,171,006 new incentive warrants under the terms of an Incentive Warrant scheme designed to encourage the early exercise of a significant number of outstanding warrants. A total of 35,086,199 warrants with expiration dates of November 15, 2009, November 30, 2009, December 28, 2009 and January 25, 2010, all with a strike price of C$1.70, were eligible for conversion into one new common share plus one new warrant with a strike price of C$2.50 and an expiry date of January 18, 2013.

While the transaction would normally have required shareholder approval, the Company was able to obtain the written consent of a majority of non-warrant-holding stockholders under the terms of the exemption in 604(d) of the TSX Company Manual. The newly issued common shares represent a 6.6% dilution of roughly 185 million common shares outstanding at 2007 year end.

COMMENT: *Based on a one-year historical volatility of 62%, the new $2.50 strike series warrants have a theoretic value of about C$0.75 each. This implies that the converting warrant holders received their new common shares at an adjusted price of C$1.07 net of the value of the warrant, based on a 20-day average share price of $1.82 to January 18, 2008. This constitutes the second equity financing within the last three months generating gross proceeds of roughly C$85 million which should be sufficient to meet anticipated capital expenditure and debt reduction requirements in 2008. We therefore do not anticipate any further equity issues for the remainder of the year.*

2. Debt Re-Negotiation

The Corporation also announces that it has entered into amendments of its loan agreements with J. Aron & Company (an affiliate of Goldman, Sachs & Co.) and certain affiliates of Silver Point Capital whereby the lenders agreed to extend the maturity date under the Corporation's August 2007 Second Lien Credit Agreement (which relates to the financing provided in connection with the Corporation's acquisition of Forest Oil Corporation's Alaska assets and operations) to February 24, 2012 and to extend the time for a mandatory prepayment of a portion of that loan until March 31, 2009.

COMMENT: *The funds provided by J. Aron and Silver Point were only intended to be bridge financing arrangements until more permanent fund arrangements could be set in place. The three-year final maturity extension and one-year pre-payment extension was prompted by the Company's inability to secure a re-financing within the time alloted due to the currently unsettled credit market conditions. Borrowings under this facility total $385 million. We have now pushed forward our $40 million debt reduction payment into 2009 in our financial forecast.*

3. Alaska Oil & Gas Tax Increase

On November 15, 2007, a special session of the Legislature of the State of Alaska overwhelmingly passed the ACES – Alaska's Clear & Equitable Share oil tax that imposed significantly higher taxes on oil produced in Alaska. The basic state oil production tax was increased by 2.5 percentage points to 25%, and many deductions enjoyed by the industry under previous legislation were eliminated. A surtax measure was also imposed boosting the tax rate by 0.4 percentage points for every $1 above $30 when net Alaskan crude prices exceed $30 a barrel. The law is retroactive to July 1, 2007, the first day of Alaska's current fiscal year.

COMMENT: *Special provisions were also included in the Act to protect declining Cook Inlet oil production by leaving the original tax structure in place until 2022 for both new or previously developed oil production. Pacific Energy is awaiting a final legal opinion on the matter as regards to its specific circumstances. Our interpretation of the relevant passages from the Act would suggest that all their current and prospective oil production from the recently acquired Alaskan assets would qualify.*

PROPERTY SUMMARY

Pacific Energy currently holds production and/or exploration assets in four geographic areas.

The following table summarizes the property position as of September 30, 2007.

Table 1: Properties Summary

Name	Classification	Working Interest	Acres (Net)	Oil Production Bbl/d	Gas Production Mcf/d
Beta Unit – Offshore California	Producing/Development/Exploration	100%	17,280	1,600	480
Los Angeles Basin	Producing/Development	50%/100%	617	430	150
San Joaquin County – (former Carneros)	Producing/Development	100%	8,792	325	0
Wyoming – Green River Basin	Exploration	40%/28%	99,000	N/A	N/A
Alaska – Cook Inlet	Producing/Development/Exploration	47%/100%	972,640	4,700	248
Total			**1,098,329**	**7,055**	**878**

Total Production BOE/d	**7,201**
(Alaska)	4741
(Remainder)	2460

Name	Producing Wells	Proved & Probable (2P) Reserves MMBOE	Reserve Life Index (Years)	Oil Gravity (API)
Beta Unit – Offshore California	1	31.6	51.5	14º API
Los Angeles Basin	66	21.3	128.3	29-33º API
San Joaquin County – (former Carneros)	126	2.8	23.6	28º API
Wyoming – Green River Basin	N/A	N/A	N/A	N/A
Alaska – Cook Inlet	6	53.9	31.1	34º API
Total	**199**	**109.6**		

Source: Company Reports and eResearch

1. Cook Inlet – Alaska

Acquired in mid-2007 for US$458 million, this asset comprised the former Alaskan properties of Forest Oil Corporation. As it resulted in the doubling of the Company's Proved & Probable (2P) reserves and tripling of total production to over 7,200 BOE/d, this acquisition has transformed the Company from a small regional operator in California into a major middle-tier producer with significant well-defined reserves, growing production, and high-impact exploration opportunities. The property consists of interests in nine fields (five producing) most of which are offshore production platforms. The fields are mature and, therefore, experiencing moderate production declines and rising operating costs. The 58.9 million barrels of Proved and Probable Reserves are well defined and long-lived (28 years). Over 80% of production is light oil with combined oil and gas production currently averaging about 4,500 BOE/d. Additional assets include approximately one million net acres of exploration land and a 40% interest in the Cook Inlet Pipeline Company.

Pacific Energy plans to spend US$120 million over the next three years on a combination of recompletion work to increase existing production, as well as funding a number of major, high-impact gas exploration plays. A portion of these funds represents the pro-rata share of a recently announced US$200 million development program that operating partner Chevron (46% working interest) has committed to over the next three years.

About US$50 million of this US$120 million total budget is earmarked to fund the potentially high-impact Corsair natural gas prospect in the Cook Inlet. The field could contain up to 500 billion cubic feet of gas-in-place. Under the terms of an agreement with the State of Alaska, drilling on the field must commence before the end of 2008 and requires the deployment of a jack-up rig. No jack-up rigs are currently in the Cook Inlet area but the Company is currently negotiating to either lease or buy one or more rigs to meet this deadline. The latter option may involve setting up a Joint Venture with other operators with similar exploration prospects in the Cook Inlet area.

Other offshore gas exploration targets include the Raptor, and Valkyrie prospects. Gas prices for the Cook Inlet have steadily increased over the last two years and are expected to continue as current gas production in the region is declining, further enhancing the attractiveness of these high-potential exploration targets.

2. Beta Unit – California Offshore

Also acquired in 2007, this property comprises three separate offshore oil platforms (2 production, 1 processing) located in the Santa Barbara channel, offshore California. Pacific Energy paid US$91.8 million for these assets, consisting of posting a US$90 million bond (currently covered by US Treasury Bill) to fund an estimated future abandonment liability of US$127 million. A further US$7 million must be paid to the vendors once 200,000 barrels of production have been realized.

The field is mature, currently producing 1,500-1,600 Bbl/d of heavy (14 degree API) oil from one (Ellen) of the two producing platforms. The realized price for this heavier grade of crude is roughly at a 15% discount from benchmark WTI. During the latest quarter this came to US$65/bbl. Management believes an additional 4,400 Bbl/d of production can be restored either partially or fully by mid-2008 from the other producing platform (Eureka), which was shut-in in 1999 as a result of pipeline integrity issues.

Additional production gains can be achieved through infill drilling. The potential exists for between 30-50 infill wells to be drilled, each producing approximately 300 Bbl/d and costing about US$2.5 million each. Rapidly realizing these production gains is key to reducing per barrel operating, which are now in excess of US$48/bbl. Management believes that if full potential production of 10,000-12,000 bbl/d were achieved, per barrel operating costs could fall as low as US$15/bbl. This seems reasonable.

Assuming the shut-in production is quickly restored, the Beta field has a reserve life of approximately 14 years. This could be extended considerably. An estimated 400-600 million barrels of oil in place is accessible from the platforms, 17%-30% of which could be recovered via the implementation of an enhanced water-flood program.

3. Los Angeles Basin – California Onshore

Pacific Energy owns and operates portions of three separate mature oil fields in the Los Angeles Basin, the largest of which is the Wilmington field. Current total oil production is approximately 550 Bbl/d. The Company has embarked on an extensive infill drilling program in the Wilmington field. Five wells producing an average of 49 Bbls/d have been successfully drilled so far this year. Current plans call for drilling of five additional wells this year, 15 to 20 wells in 2008, and 20 to 30 wells in 2009, subject to rig availability. The Company has 63 additional drilling locations identified in its Wilmington field. While production per well is expected to be only a modest 50 bbl/d, returns are expected to be high due to the low operating costs in the field. Currently, the Company's realized price per barrel from these operations is US$66/bbl compared to a lease operating expense of US$12.55/bbl.

4. San Joaquin Valley – California

Acquired in 2006, the Company is realizing net production of 325 Bbls/d of 28 degree API light oil from four producing fields. Margins are good, with the current realized price in excess of US$75/bbl and operating expenses of around US$25/bbl.

With 8,792 net acres, there are a number of prospective oil plays the Company is pursuing to expand production. During 2007, two wells were drilled into the McDonald Anticline field, which has Proved reserves of 37 million barrels. Both wells are currently in clean-up phase with initial production of 20 bbl/d. Recoverable reserves for each could total between 30,000 and 80,000 barrels. Funds have been allocated to drill two additional wells at this site.

5. Green River - Wyoming

Pacific Energy is currently involved in a Participation Agreement with partners Shell and Wolverine Oil & Gas wherein it has agreed to fund a 3D seismic program and drill two wells on a 100,000 acre property in the Green River Basin in Wyoming. In exchange for estimated costs of US$25 million, the company will earn a 40% working interest in 85% of the area, and a 28% working interest in approximately 15% of the area. The first well, drilled recently, completed testing and frac stimulation, and produced gas, condensate and water. However, its commercial viability has yet to be confirmed. The second well is still expected to be spudded in mid-2008.

The property lies in close proximity to the highly productive Jonah gas field, which holds 10 trillion cubic feet of reserves. Assuming the property can be fully developed in an analogous fashion to the Jonah field, the total reserve potential is 3 to 5 trillion cubic feet.

Additional information on these projects is presented in Appendix 3.

RECENT ACQUISITIONS

As a result of the acquisition of the Cook Inlet and Beta Unit assets, Pacific Energy has promoted itself from being a small regional producer, into a mid-tier entity. The reserve base has increased five-fold, and total production for 2007 is forecast to increase by over 400% relative to 2006, with a further 244% increase projected in 2008. The relevant terms of these acquisitions are summarized in the following table.

Table 2: Recent Acquisitions – Comparative BOE Price

Property	Acquisition Net Reserves Cost ($MM)	Proved & Probable (2P) Reserves Acquired (MMBbls)	Cost Per Bbl ($)	Reserve Quality (API Gravity)	Current Production (BOEPD)
Forest Oil Properties – Alaska	$447.4	53.9	$8.30	28º - 34º	4,557
Beta Unit – California Offshore	$91.8	31.6	$2.91	14º	1,550
Total	**$539.2**	**$85.5**	**$7.38**	**N/A**	6,107

Source : Company Reports and eResearch

COMMENT: *The relatively low per barrel cost (US$7.38) of acquiring these 2P reserves reflects the mature nature of the assets and the significant capital commitments required to generate incremental production from them. As these acquisitions were funded primarily with borrowed funds, the Company's debt levels have risen dramatically. Long-term debt now totals approximately $460 million, compared to just $37 million at the end of 2006.*

RESERVES

Pacific Energy has 110 million barrels of oil equivalent ("BOE") of Proved & Probable (2P) Reserves and 475 million BOE of Proved, Probable & Possible (3P) Reserves in all the properties, as estimated by DeGolyer & McNaughton (Los Angeles Basin and Alaska properties) and by Netherland Sewell & Associates (San Joaquin Basin & California offshore properties).

Approximately 48% of the 2P reserves are now in Alaska, with another 30% associated with the Beta Unit, a series of offshore oil platforms in California, and the remaining approximate 20% located in the onshore California assets. The average reserve life for Proved reserves is roughly 15 years.

As a result of the Alaska acquisition, the Company now has a better balance between lighter and heavier grades of crude in its reserve portfolio, with about an equal split now in place. In terms of current production, the split is roughly one-third "heavy" and two-thirds "light".

COMMENT: *Should the Company succeed with its previously described exploration prospects, the Company could potentially add an additional 217 million BOE (unrisked) to Proved reserves. If these reserve additions were valued at the same average price (US$7.38/BOE) as the Company's recent acquisitions, this would generate a value increment of US$1.6 billion, or US$8.11 per share, based on current basic shares outstanding of 197.2 million. When expressed in terms of risked PV-10 value, we calculate the value increment at $8.76 per share.*

PRODUCTION

Pacific Energy is currently producing approximately 7,000 BOE/d, with production roughly split 85% oil and 15% natural gas. Roughly one-third of this production is currently being sourced from the newly acquired Alaska properties.

Factoring in the inclusion of a partial year's production from the Beta Unit and the Alaska assets, average daily production should come in at just under 3,600 BOE/d for 2007. For 2008 and 2009, we are projecting substantial increases in production based on: (1) the restoration of production from the Eureka platform in the Beta Unit, which is expected to add an additional 4,600 BOE/d; (2) the inclusion of a full year's production from the Alaska acquisition (approximately 4,500 BOE/d); and (3) production increases resulting from development drilling at the Wilmington oil field in the Los Angeles Basin. On this basis, average daily production is estimated to rise to just over 11,300 BOE/d in 2008 and approximately 15,000 BOE/d in 2009.

Table 3: Historical and Forecast Production

	2005A	2006A	2007E	2008E	2009E	2010E
Annual Production – BOE	146,498	257,413	1,296,080	4,150,348	5,467,943	6,634,987
BOE/d	401	705	3,551	11,371	14,981	18,178
Growth (%)	N/A	75.7%	403.5%	220.2%	31.7%	21.3%

Source: Company Reports and eResearch

COMMENT: *We have incorporated these forecasts into our DCF model (see Appendix 4).*

In order to hedge a portion of its production, the Company has entered into a series of crude oil swap derivative transactions. The reference oil price is the benchmark West Texas Intermediate (WTI). For the nine months ended September 30, 2007, the Company reported a realized loss of $1 million on this hedge, an unrealized loss of $6.4 million, and a carried liability on its balance sheet of $11.6 million. The following table summarizes this derivate exposure as of September 30, 2007:

Table 4: Crude Oil Hedge

Expiry	Volume (bbl/period)	% of Annual Production	Weighted Average Strike Price (US$/bbl)
2007	317,688		$66.03
2008	1,168,382	28.7%	$65.92
2009	1,022,169	19.0%	$65.77
2010	748,861	11.4%	$65.05
2011	492,519	7.2%	$62.09
2012	416,412	5.9%	$60.12

Source: Company Reports and eResearch

COMMENT: *At the time of this valuation, the spot price for WTI was roughly US$80/bbl. We have incorporated the valuation impact of this hedge into our forecasts for the 2007 to 2009 period assuming a forecast WTI price of US$85/bbl. The following table summarizes our estimate of the annual impact of these hedges over that period:*

Estimated Oil Hedge Impact

	2007	2008	2009
EPS	-$0.11	-$0.19	-$0.16
CFPS	-$0.04	-$0.10	-$0.09

Source: Company Reports and eResearch

VALUATION

We have employed three valuation methods to derive an intrinsic value estimate for Pacific Energy:

1) Peer Comparison;
2) Discounted Cash Flow (DCF); and
3) Potential Exploration Incremental Value (Risked).

1. Peer Comparison

We have chosen four public companies that can be considered suitable analogs to Pacific Energy given their collective exposure to mature California oil fields, continental U.S. gas exploration, and oil production from the Cook Inlet area of Alaska.

The companies are:
1) Breitburn Energy Partners L.P. (BBEP);
2) Venoco, Inc. (VQ);
3) Berry Petroleum Co. (BRY); and
4) XTO Energy Inc. (XTO).

In order to develop a reasonable comparative valuation profile for these analog companies, we considered the following valuation measures in our analysis:

- ► Market Capitalization to EBITDA Ratio.
- ► Market Capitalization to Cash Flow Ratio.

The results of our analysis are set out in the following table:

Table 5: Peer Comparison

Company	Ticker	Price – USD (Jan 15, 2008)	Shares (MM)	Market Cap. (MM)	EBITDA 2009E ($MM)	MktCap/ EBITDA 2009E	Cashflow 2009E	MktCap/Cashflow 2009E
Breitburn Energy Partners L.P.	BBEP	$27.40	67.0	$1,836.3	$343.5	5.3	$208.4	8.8
Venoco	VQ	$16.84	50.4	$847.9	$280.1	3.0	$216.0	3.9
Berry Petroleum Co.	BRY	$41.61	44.1	$1,835.0	$455.5	4.0	$326.3	5.6
XTO Energy Inc.	XTO	$54.29	483.6	$26,251.9	$5,294.3	5.0	$3,863.6	6.8
Average						**4.3**		**6.3**
Pacific Energy	PFE	$1.75	197.2	$345.1	$168.1	**2.1**	$114.13	**3.0**

Note: Pacific Energy's stock price is quoted in Canadian currency. For the purpose of accurate comparison, the price has been converted to US currency at the prevailing US/CAD exchange rate.

Source: Company Reports, Thomson One Analytics and eResearch

COMMENT: *2009 will constitute the first year in which full production from both the Beta field and Alaska is included. Earnings and cash flows for Pacific Energy in that year are more normalized than in 2008. For this reason we have decided to use 2009 as the reference year for our peer valuation analysis.*

Using the average ratios of the peers derived from the above analysis, we calculate the following intrinsic value estimates for the Company's share price:

Table 6: Peer Comparison – Intrinsic Value Estimates

	Intrinsic Value
MktCap/EBITDA – 2009E	$3.70
MktCap/Cashflow – 2009E	$3.64
Average Intrinsic Value ($US)	$3.67
USD/CAD Exchange Rate	1.000
Average Fair Value ($CDN)	**$3.67**

Source: Company Reports and eResearch

Thus, our Peer Comparison analysis produces a one-year forward intrinsic value for Pacific Energy's shares of C$3.67.

2. Discounted Cash Flow Analysis

A standard discounted cash flow ("DCF") analysis was also employed to estimate an intrinsic value for the Company based on current Proved & Probable (2P) reserves and estimated production levels based on management's recent disclosures regarding their near-term targets. A detailed presentation of this model appears in Appendix 4, including a discussion of the key assumptions employed.

Based on this methodology, an intrinsic value estimate of US$1.82 (C$1.83) was obtained.

3. Potential Exploration Incremental Value (Risked)

As our DCF analysis only incorporates an estimate of value based solely on production from existing 2P reserves, we must also factor in an estimate of the incremental value that could result from the Company's existing exploration prospects, appropriately risked.

For the 2008-2009 period, we have identified three significant exploration prospects that have the potential to add approximately 217 million barrels oil equivalent (BOE) to reserves (1.7 trillion cubic feet of gas and 80 million barrels of oil): the Corsair prospect in Alaska, the Green River Basin gas play in Wyoming, and further oil reserve potential in the Beta field offshore California. The following table summarizes our estimates:

Table 7: Risked Value of Exploration Prospects

Exploration Prospect	Timeframe	Potential Reserves MMBOE	Potential PV-10 Value $ MM (Unrisked)	Risk Weighting	Potential PV-10 Value $MM (Risked)	Per Share (Unrisked) $USD	Per Share (Risked) $USD
Beta Unit – California Offshore	2009	80.0	$819.6	20%	$163.9	$4.16	$0.89
Green River Basin – Wyoming	2008	95.5	$532.7	10%	$53.3	$2.70	$0.29
Corsair Field – Cook Inlet – Alaska	2008	41.7	$376.4	10%	$37.6	$1.91	$0.20
		217.2	$1,728.7	**Total**	**$254.8**	**$8.76**	**$1.38**

COMMENT: *We estimate that these exploration activities have the potential to add a total of $1.7 billion, or US$8.76 per share, in unrisked incremental PV-10 value to the Company. Risk adjusted, this potential increment is estimated at US$1.38 per share. The low (10%) probabilities of success we have applied to both the Alaska and Wyoming prospects reflect the following: the fact that only one further well is planned in Wyoming, and the lack of visibility regarding the securing of a rig for the Corsair prospect. However, confirmation of this would lead to revising upward our probability for Corsair to 40%, and result in the addition of US$0.58 per share in risked value. Should the prospect not be drilled, the resulting elimination of US$50 million in planned expenditures over 2008/2009 would likely result in the paying down of a similar amount of debt.*

Source: Company reports and eResearch

4. Target Price Determination

Our estimate of a 12-month Target Price is based on the combination of:

1. The estimate obtained from our Peer Group analysis;
2. Our DCF-based estimate of the Company's value based on current (2P) reserves, plus the risked value of its exploration prospects.

Based on an equal weighted average of the values obtained from these two valuation approaches, we have derived an intrinsic value per share of C$3.43.

Table 8: Target Price Estimate

Intrinsic Value (C$)	
1) Peer Group Analysis	$3.67
2) DCF (Based on current 2P Reserves)	$1.82
Plus: Risked Exploration Premium	$1.38
Equals	$3.20
Intrinsic Value - (Equal Weighted Average)	**$3.43**
Target Price	**$3.40**

Source: eResearch

Taking all factors into account, our 12-month Target Price for the shares of Pacific Energy is C$3.40. Our estimated three-year Target Price is $5.15, which we obtain by applying the current Peer Group Price/Cash Flow Per Share forward multiple of 6.3x to our 2012 estimate of Free Cash Flow Per Share of $0.82.

FINANCIAL REVIEW

Revenue/Income

For the nine months ended September 30, 2007, gross revenues were $53 million, up from $8 million in the corresponding period last year. This increase is directly attributable to the Beta and Alaska purchases.

With the acquisitions and subsequent increase in gross revenue, production expenses and royalty payments were correspondingly higher.

COMMENT: *As a result of drilling platform pre-production maintenance charges, Lease Operating Expense (LOE) reached US$51.95 per BOE for the Alaska properties and US$48.57 per BOE for the Beta Unit. With the anticipated 4,400 BOE/d production gain on the Beta Unit next year, and the prospect of incremental gains arising from the planned redevelopment program currently being conducted in conjunction with Chevron in Alaska, we anticipate per BOE LOE costs to decline to the mid-to-low US$30 range in 2008 for these two assets.*

For the full year 2007, we expect Pacific Energy to record revenues of US$101.1 million, EBITDA of US$41 million, and a net loss of US$31.2 million, or $0.18 per share. Approximately $0.11 per share of this net loss can be attributed to the realized and unrealized reported losses associated with the Company's derivative oil hedges.

For 2008, with the restoration of shut-in production at Beta Unit, total revenues are expected to rise by over 150% to $283 million. However, higher operating, depreciation and financing charges should still result in a net loss of $1.5 million, or $0.01 per share.

Cash Flow

The increased maintenance expenses for the Beta Unit and Alaskan assets also produced a negative operating cash flow of $3.3 million for the first nine months of 2007. However, for the year as a whole, we still are forecasting operating cash flow of $20 million, or $0.12 per share.

Capital Expenditures

Including the cost of the recent acquisitions, capital expenditures in 2007 are projected to exceed US$484 million. In 2008, all planned expenditures will be directed at enhancing production. This should total US$125.3 million. The following table provides a detailed forecast of these expenditures over the next five years.

Table 9: Capital Expenditure Forecast

Capex	2008	2009	2010	2011	2012
Beta Unit	$57,700,000	$7,200,000	$7,200,000	$7,200,000	$7,200,000
Wilmington	$20,000,000	$20,000,000	$8,000,000	$0	$0
San Joaquin	$1,600,000	$1,600,000	$0	$0	$0
Wyoming	$12,000,000	$0	$0	$0	$0
Alaska	$34,000,000	$51,000,000	$65,000,000	$0	$0
Total	**$125,300,000**	**$79,800,000**	**$80,200,000**	**$7,200,000**	**$7,200,000**

Our key assumptions are:

- *Beta Unit: Infill drilling of three wells per year at a cost of US$2.4 million each over the forecast period.*
- *Wilmington: A total of 60 wells drilled over the 2008-2010 period costing US$800,000 each.*
- *San Joaquin: Two wells drilled in both 2008 and 2009 at a cost of US$800,000 each.*
- *Wyoming: Second well plus seismic - US$12 million.*
- *Alaska: US$119.8 million spent during the 2008-2010 period. Included in this sum is US$50 million for drilling the Corsair gas prospect.*

Source: eResearch

COMMENT: *These forecasts have been incorporated into our Discounted Cash Flow (DCF) valuation model. Should the Corsair prospect not be drilled, we would remove US$50 million from these estimates, being $25 million in each of 2008 and 2009.*

Cash

After giving effect to the recent US$65 million equity private placement, and US$40 million debt pay-down, we estimate that the Company currently has an unrestricted cash balance of US$31 million. At year-end 2007, we expect this amount to have risen to US$61.7 million on the strength of positive operating cash flow during the final quarter of the year.

Outstanding Debt

As of November 2007, Pacific Energy had significant long-term borrowings outstanding, totaling approximately $506 million, all of which were incurred in connection with recent property acquisitions. Virtually all these borrowings are carried on a floating rate basis, at an average pre-tax cost of approximately 10%. Proposals from a number of investment banks have been submitted and are currently under review. Following the recent $65 million equity private placement, $40 million of the Alaska Acquisition Second Lien Loan was paid down. Since the recent debt renegotiation as resulted in the one-year deferral of a pre-payment on this same facility we are no further debt pay downs in 2008, but are projecting a US$40 million paydown in 2009.

The following table summarizes debt outstanding as of November 2007.

Table 10: Outstanding Debt

Facility	Terms	Notional	Reference	Reference Rate	Effective Rate
Laurus	Prime plus 2% - floor at 8%	$20,643,852	US Prime	7.50%	9.50%
Goldman Silverpoint SSC	Eurodollar plus 7.75% - floor at 12.75%	$65,000,000	$US Eurodollar	4.50%	12.75%
Alaska Acquisition - 1st and 2nd Lien Loans	Prime plus 2% (assumed)	$385,000,000	US Prime	7.50%	9.50%
Production Loans – Aera Energy	Prime plus 2% (assumed)	$5,949,122	US Prime	7.50%	9.50%
Forest Zero Coupon Note	$60,750,000 payable July 14, 2014	$29,250,000	N/A	N/A	11.00%
Face Value Of Debt – Nov 2007		**$505,842,974**			
Estimated Pre-Tax Cost Of Debt		**10.00%**			

Source: Company Reports and eResearch

COMMENT: *Adjusted for unamortized transaction costs, and certain discounting adjustments, we estimate long-term debt carried on the balance sheet to be US$460 million at 2007 year-end. Based on the face value of the debt (US$506 million) and our 2008 estimate of operating cash flow of US$61 million, the debt to cash flow multiple currently stands at 8.3x – a number that represents an above-average degree of leverage, even giving full consideration to the prospective production gains expected to be achieved over the course of the next year. We have also estimated that the current pre-tax cost of this debt is roughly 10%. The Company is currently attempting to lower this rate via conversion to a new financing structure. Each percentage point reduction in interest costs amount to roughly US$4.5 million or between US$0.02 and US$0.03 per share. Given the currently unsettled nature of credit markets, the odds of the Company securing advantageous terms have diminished considerably.*

Warrants & Options

The following table lists all common share purchase warrants and options outstanding as of November 30, 2007.

Table 11: Warrants & Options Outstanding

1. Warrants

Number	Exercise Price (CAD)	Remaining Contractual Life	Comment	Potential Equity
637,363	$0.90	1.49	In-the-Money	$573,627
28,254,322	$1.42	4.40	In-the-Money	$40,121,137
2,401,400	$1.62	3.92	In-the-Money	$3,890,268
29,822,034	$1.70	2.50	In-the-Money	$50,697,458
818,720	$1.79	2.50	In-the-Money	$1,465,509
12,171,006	$2.50	5.00	Out-of-the-Money	$30,427,515
14,488,074	$2.65	1.50	Out-of-the-Money	$38,393,395
88,592,919				$165,568,908

2. Options

Number	Exercise Price (CAD)	Remaining Contractual Life	Comment	Potential Equity
3,150,000	$0.84	3.10	In-the-Money	$2,646,000
100,000	$0.84	1.10	In-the-Money	$84,000
2,160,000	$1.55	4.65	In-the-Money	$3,348,000
6,340,000	$2.91	2.25	Out-of-the-Money	$18,449,400
11,750,000				$24,527,400

Source: Company and eResearch

COMMENT: *With over 90 million warrants and options outstanding, most of which are currently "in-the-money" at this point, there is a considerable (45%) potential dilution effect existing in Pacific Energy's capital structure. However, none of these instruments is due to expire within our 12-month forecast horizon and the overwhelming majority have expiry dates 2 ½ to 4 ½ years hence. Following the recent conversion of over 12 million warrants, we do not anticipate any further meaningful conversions over the balance of 2008.*

Shareholders' Equity

Pacific Energy has authorized share capital of 500,000,000 shares, of which 197,227,145 shares are issued and outstanding as of February, 2008 after giving effect to the shares issued under the Incentive Warrant program. The following table summarizes the increase in shares outstanding since the beginning of 2007.

Table 12: Shares Outstanding

	Number Of Shares
Balance Dec 31, 2006	77,598,406
Issued Thru Sept 30,2007	78,481,586
Balance Sept 30, 2007	156,079,992
Private Placement – Oct/2007	28,976,147
Basic Shares Outstanding – Dec/2007	**185,056,139**
New Shares Issued Under Incentive Warrant Plan	12,171,006
Basic Shares Outstanding – Jan/2008	**197,227,145**
Potential Shares To Be Issued Due To Late Share Registration	7,429,000
Total Shares Underlying Warrants	88,592,919
Total Shares Underlying Stock Options	11,750,000
Fully Diluted Shares Outstanding – Jan/2008	**304,999,064**

Source: Company Reports and eResearch

Over the last 12 months, the number of basic shares outstanding has roughly tripled. The two most recent equity financings raised over $124 million, which combined with internal funding should be sufficient to fund aggressive capital expenditure program in the coming year and further reduce debt by $40 million. We therefore do not anticipate any further equity issuance in 2008.

Financial Statements

Set out below are abridged financial statements of net income/loss; cash flow; and the balance sheet, together with a commentary.

Table 13: Selected Financial Information

U.S. Currency	Nine Months Ending Sept 30: 2007	2006	Year Ending December 31 2005	2006	2007E	2008E	2009E
Oil & Gas Production (BOE)	841,080	N/A	146,498	257,413	1,296,080	4,064,877	5,385,575
Realized Price Per BOE	$62.98	N/A	$50.35	$44.53	$78.00	$68.28	$66.48
Production Expense Per BOE	$35.84	N/A	$16.96	$14.68	$31.01	$27.56	$24.26
Royalty Rate Per BOE	$10.35	N/A	$0.90	$0.88	$8.96	$10.00	$9.00
DD&A Per BOE	$31.97	N/A	$2.54	$5.16	$27.70	$13.00	$12.50
Operating Costs Per BOE	$4.94	N/A	$47.23	$32.07	$4.28	$3.06	$2.30
Statement of Income/(Loss):							
Oil & Gas Production Revenue	52,967,224	8,193,164	7,376,314	11,462,870	101,094,240	283,371,635	363,525,952
Less Production Expenses	(30,143,307)	(2,555,905)	(2,484,914)	(3,779,338)	(40,190,000)	(114,369,755)	(132,633,945)
Less: Royalty Payments	(8,707,750)	(170,743)	(132,467)	(226,965)	(11,609,000)	(41,503,481)	(49,211,490)
Net Oil & Gas Revenue	14,116,167	5,466,516	4,758,933	7,456,567	49,295,240	127,498,399	181,680,517
Operating Costs	(4,158,956)	(3,382,687)	(6,919,720)	(8,256,391)	(5,550,000)	(12,451,044)	(12,381,140)
Stock-based Compensation	(2,294,503)	(407,406)	(58,956)	(1,652,126)	(2,800,000)	(1,200,000)	(1,200,000)
Operating Profit (EBITDA)	7,662,708	1,676,423	(2,219,743)	(2,451,950)	40,945,240	113,847,355	168,099,378
Depletion, Depreciation & Amortization	(26,893,249)	(1,648,031)	(372,256)	(1,327,186)	(35,900,000)	(53,954,525)	(68,349,292)
Interest	(15,560,720)	(1,702,391)	(370,626)	(6,655,502)	(20,800,000)	(46,010,885)	(36,812,714)
Net Income/(loss) before Taxes	(34,791,261)	(1,673,999)	(2,962,625)	(10,434,638)	(15,754,760)	13,881,945	62,937,371
Other Income/Interest	(96,484)	151,936	35,777	1,436,957	(2,815,180)	(2,815,180)	(18,292,729)
Other Non-Cash Items	(4,148,913)	-	-	-	(12,584,764)	(12,584,764)	(18,593,404)
Income taxes	(11,170)	(3,105)	1,255,964	(3,026,060)	(45,000)	(50,000)	(65,000)
Net Income/(Loss)	(39,047,828)	(1,525,168)	(1,670,884)	(12,023,741)	(31,199,704)	(1,567,999)	25,986,239
Shares Outstanding	156,079,992	63,033,597	56,963,538	77,598,406	185,056,139	197,227,145	197,227,145
Average Shares Outstanding	142,389,489	58,635,447	33,597,139	61,138,453	170,568,066	183,897,605	197,227,145
Earnings (Loss) Per Share	($0.27)	($0.03)	($0.05)	($0.20)	($0.18)	($0.01)	$0.13
Statement of Cash Flow:							
Net Income/(Loss)	(39,047,828)	(1,525,168)	(1,670,884)	(12,023,741)	(31,199,704)	(1,567,999)	25,986,239
All Non-Cash Items	(33,347,835)	(2,058,542)	2,916,968	16,954,669	51,284,764	67,739,289	88,142,695
Cash Flow from Operations	(5,699,993)	533,374	1,246,084	4,930,928	20,085,060	66,171,290	114,128,935
Cashflow Per Share	($0.04)	$0.01	$0.04	$0.08	$0.12	$0.36	$0.58
Capital Expenditures (Properties)	(29,467,488)	(6,886,382)	(158,484)	(13,919,217)	(484,467,488)	(125,300,000)	(79,800,000)
Other Investing Items	(2,168,595)	(144,927)	(2,373,474)	627,184	(2,500,000)	(1,600,000)	(1,600,000)
Free Cash Flow	(37,336,076)	(6,497,935)	(1,285,874)	(8,361,105)	(466,882,428)	(60,728,710)	32,728,935
Working Capital Changes	2,372,317	1,303,446	(1,041,319)	1,890,303	26,707,894	(5,617,000)	(5,616,999)
Debt Financing	25,525,275	(136,058)	6,111,463	14,321,923	422,452,727	-	(40,000,000)
Equity Financing	2,098,198	3,955,918	494,185	2,739,808	64,388,826	20,690,710	-
Change in Cash	(7,340,286)	(1,374,629)	4,278,455	10,590,929	46,667,019	(45,655,000)	(12,888,064)
Cash, Beginning of the Period	14,999,943	4,409,014	130,559	4,409,014	14,999,943	61,666,962	16,011,962
Cash, End of the Period	7,659,657	3,034,385	4,409,014	14,999,943	61,666,962	16,011,962	3,123,897

	Nine Months Ending Sept 30: 2007	2006	2005	2006	2007E	2008E	2009E
Balance Sheet:							
Cash	7,659,657	3,034,385	4,409,014	14,999,943	61,666,962	16,011,962	3,123,897
Restricted Cash	-	208,408	3,100,099	83,615,472	-	-	-
Accounts Receivable	25,280,291	1,609,046	952,286	1,537,436	16,000,000	14,000,000	15,000,000
Other Current Assets	13,805,675	466,411	379,969	3,692,182	9,500,000	13,000,000	16,000,000
Current Assets	46,745,623	5,318,250	8,841,368	103,845,033	87,166,962	43,011,962	34,123,897
Petroleum & Natural Gas Properties	529,003,428	35,800,094	8,507,570	40,588,543	560,956,031	632,301,506	643,752,214
Other Assets	114,633,225	7,206,773	5,139,621	12,543,158	95,000,000	110,000,000	108,322,119
Total Assets	690,382,276	48,325,117	22,488,559	156,976,734	743,122,993	785,313,467	786,198,231
Accounts payable	30,739,925	3,286,525	1,573,531	10,537,400	40,000,000	48,584,764	55,678,167
Short term debt	1,500,000	7,000,000	2,000,002	1,500,000	1,500,000	1,500,000	1,500,000
Other current liabilities	11,878,212	21,281	189,286	743,231	17,046,605	21,394,880	15,000,000
Current Liabilities	44,118,137	10,307,806	3,762,819	12,780,631	58,546,605	71,479,643	72,178,167
Long term debt	499,908,504	22,304,633	7,755,863	37,455,777	459,908,504	459,908,504	419,908,504
Other payables	71,111,015	1,877,969	1,226,832	1,926,839	90,865,275	96,800,000	111,000,000
Total Liabilities	615,137,656	34,490,408	12,745,514	52,163,247	609,320,384	628,188,147	603,086,671
Minority interest	7,754,770	-	-	7,754,770	7,754,770	7,754,770	7,754,770
Shareholders' Equity	67,489,850	13,834,710	9,743,045	97,058,717	130,247,839	149,370,550	175,356,789
Total Liabilities & Equity	690,382,276	48,325,117	22,488,559	156,976,734	747,322,993	785,313,467	786,198,231
Book Value (S.E.) Per Share	$0.43	$0.22	$0.17	$1.25	$0.70	$0.76	$0.89

Source: Company reports and eResearch

COMMENT: *While Pacific Energy should achieve significant revenue increases from additional production gains realized from the acquired properties, increased financing, and depreciation and depletion charges are projected to generate a net loss until 2009. However, we estimate the Company will be cash flow positive over the same period. Book value per share is expected to rise to US$0.76*

APPENDIX 1 – TECHNICAL OPINION

Technically Speaking

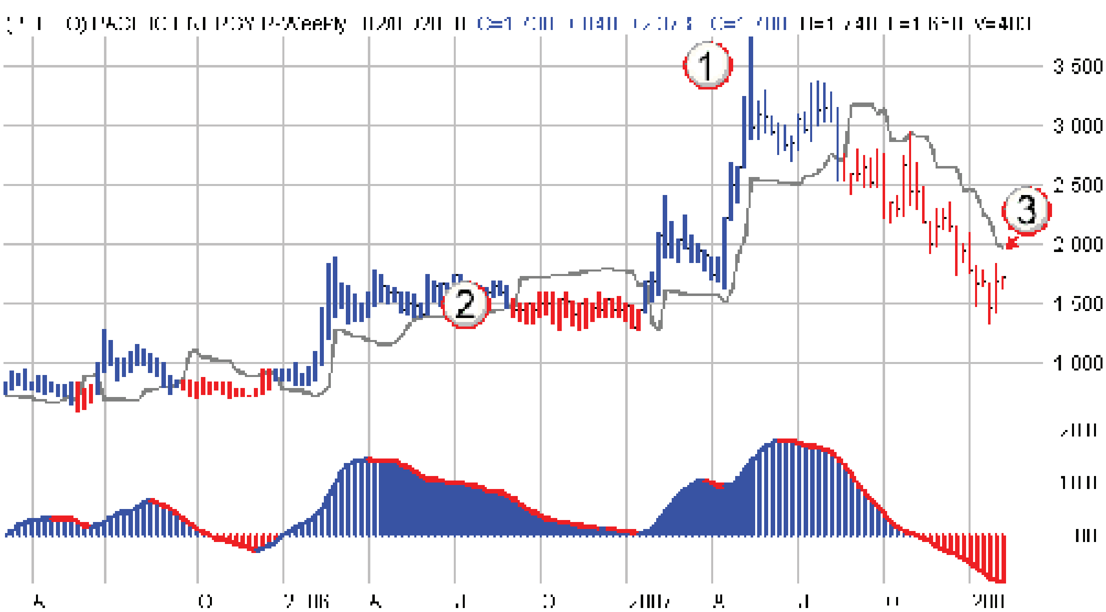
By Stephen Whiteside - Publisher - TheUpTrend.com

Pacific Energy Resources Ltd. (TSX:PFE)

After hitting a high of $3.75 in mid-2007 (1), Pacific Energy has been in an orderly decline. This decline has now come to a logical stopping point, as we have now landed on a long term support zone from $1.30 to $1.60 that was created in 2006 (2).

Long-term investors interested in adding to their positions should see buying opportunities at these levels, while new investors may want to wait until they see a weekly breakout above $2.00 (3).

Figure 1: Technical Opinion Chart



Source: Stephen Whiteside and TheUpTrend.com

APPENDIX 2 – OFFICERS & DIRECTORS

Vladimir Katic - Chairman, Chief Executive Officer, & Executive Director
Vladimir Katic graduated from the University of Zagreb in 1966 with a degree in petroleum-chemical engineering. Following an extensive corporate career in the oil & gas industry, which included positions with Syncrude and the Arabian American Oil Company ("ARAMCO"), Mr. Katic founded Nations Energy Group Ltd. in 1993. In 1996, Nations Energy Group successfully won the international tender for one of the Republic of Kazakhstan's largest oil and gas assets. Mr. Katic sold his interest in the company in 2000 after growing its heavy-oil production from 4,900 BOPD to over 30,000 BOPD.

Darren Katic - President & Executive Director
Darren Katic graduated from the University of Southern California in 1996 with a Bachelor of Science in Accounting. In 1997, he joined Nations Energy Group and worked in Kazakhstan for 18 months on the completion of the company's privatization of a state-owned oil company. In 1999, Mr. Katic founded PetroCal Incorporated, an independent oil and gas company based in southern California, and served as the company's President for five years. In August 2004, PetroCal and it shareholders agreed to merge with Pacific Energy. In July 2005, Mr. Katic was elected to the Board of Directors and appointed as the Company's President.

Jeevan Anand - Chief Operating Officer & Executive Vice-President
Jeevan Anand holds a Master of Science degree in Petroleum Engineering from the University of California, Berkeley, and a Master of Business Administration degree from the University of California, Los Angeles. Mr. Anand is a Registered Petroleum Engineer in the State of California. He joined Pacific Energy in February 2004 and, since that time, has been responsible for reservoir engineering and field operations.

John Rainwater - Executive Vice-President
John Rainwater received a Bachelor of Science (Magna Cum Laude) degree in Economics/Finance and a Masters of Business Administration (Magna Cum Laude) degree in Management, both from the University of Tulsa. He has over 30 years' experience in the oil & gas industry and has served as an officer and director of public and private corporations throughout the United States, as well as internationally. Mr. Rainwater was Chief Executive Officer of Carneros Energy, Inc. in Bakersfield, California from its inception in 2001 until its sale to Pacific Energy in the summer of 2006.

Jerett Creed - Chief Financial Officer
Jerett Creed has a Bachelor of Science degree in industrial engineering and a Master of Science degree in accounting, both from the University of Miami. Mr. Creed served as the Chief Financial Officer for Katman Petroleum, which was acquired by Petrocal Inc. prior to its consolidation with Pacific Energy. In addition, Mr. Creed originally served as the Chief Financial Officer for Pacific Energy from 2005 through August of 2006 before rejoining the organization in 2007. Mr. Creed has significant experience in financial due diligence, audits, and Sarbanes-Oxley implementation, with a particular focus on internal controls.

Patrick Devlin - Director
Patrick Devlin is President of NEMI Northern Energy & Mining Inc. He is also a securities lawyer and owner of the law firm Devlin Jensen of Vancouver, British Columbia. Mr. Devlin has been a Director of the Company since July 2005.

Matthew Hagan - Director

Matthew Hagan is the President and COO of American Wood Moulding LLC. He is also a Director of Mount Eden Vineyards. A resident of Washington, DC, he has been a Director of the Company since July 2005.

Grant Henderson - Director

Grant Henderson was President of Talon Oil & Gas LLC from January until March 2007; Vice-President of Kerr-McGee Oil & Gas Corp. from June 2004 until October 2006; and Executive Vice-President of Westport Resources Corp. from August 2001 until 2004. He is a resident of Dallas, Texas and has been a Director of the Company since March 2007.

Miroslav Vukovic - Director

Miroslav Vukovic is a pipe & pipeline engineer. He is advisor for CIS countries and south-eastern Europe for the RWE Group. He is a resident of Nordrhein-Westfalen, Germany and has been a Director of the Company since June 2001.

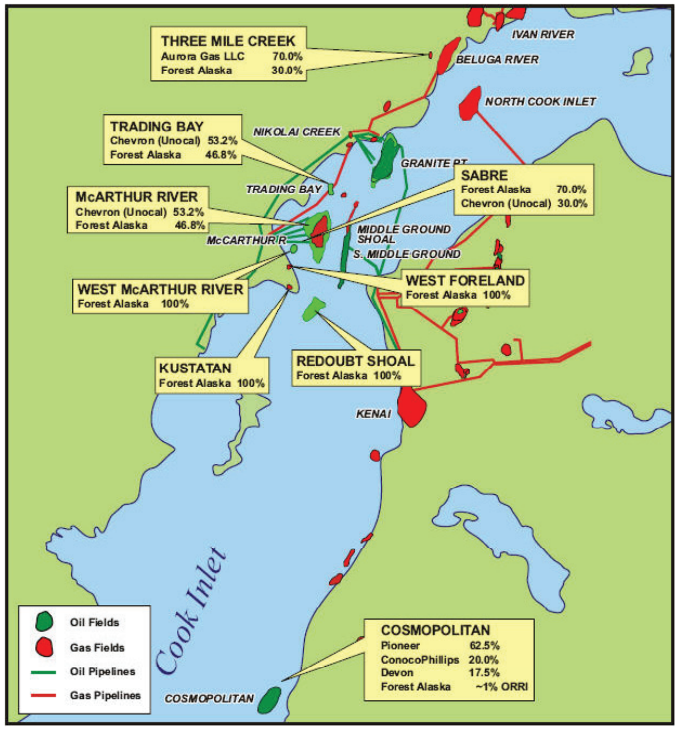
James Watt - Director

James Watt is President and CEO of Dune Energy, Inc. He is a resident of Dallas, Texas and has been a Director of the Company since March 2007.

APPENDIX 3 - PROPERTIES

A. ALASKA

Figure 2: Cook Inlet



Source: Comapny

On August 27, 2007, Pacific Energy announced that it had completed its acquisition of the Alaska oil and gas properties and operations of Forest Oil Corporation and Forest Alaska Operating LLC. The Company has acquired 100% of the membership interests in Forest Alaska Operating LLC, owner of the majority of the Alaska properties and operations, plus certain additional Alaska assets owned by Forest Oil including a 50% interest in Cook Inlet Pipe Line Company (CIPL). The purchase price was $404,987,059 in cash (of which $397 million represented debt), issuance of 10,000,000 shares of Pacific Energy stock to the vendor (with an additional 14.9 million shares issued to the lenders of that debt) and a seven-year note (accruing at a rate of roughly 11% per annum) to Forest for $29,250,000.

The assets acquired include nine fields located in the Cook Inlet area, with current production approximately 4,500 BOE/d net to the Company, of which roughly 90% is oil. The oil is medium to light gravity (28º - 34º API) crude with an average reserve life of approximately 15 years for Proved and 23 years for Proved & Probable. An August 2007 analysis performed by DeGolyer & MacNaughton, an independent consulting firm, estimated 26.06 million barrels equivalent (MMBOE) of net Proved Reserves, 27.82 MMBOE net Probable Reserves and 6.72 MMBOE of Possible Reserves for a total of 60.59 MMBOE of Proved, Probable and Possible Reserves.

Net of the value of certain miscellaneous assets acquired, Pacific Energy paid approximately $447 million to acquire 53.9 million barrels of Proved & Probable (2P) Reserves; a price of $8.30 per barrel.

In addition to the producing properties, the Forest assets to be acquired include nearly 1,000,000 net acres covering multiple exploration prospects; plus a 50% equity interest in the Cook Inlet Pipe Line Company. The following table summarizes the currently producing properties.

Table 14: Alaska Producing Properties Summary

Fields	Working Interest	Net Production (BOE/d) *	% Of Total	% Oil	Operator
McArthur River/Trading Bay Unit	46.8%	2,668	58.5%	100%	Chevron
Trading Bay	46.8%	398	8.7%	92%	Chevron
Redoubt Shoal	100%	500	11.0%	96%	Pacific Energy
West McArthur River	100%	950	20.8%	95%	Paciic Energy
West Foreland	100%	0	0.0%	0%	Pacific Energy
Three Mile Creek	30%	41	0.9%	0%	Aurora Gas
Sabre	70%	0	0.0%	N/A	Pacific Energy
Cosmopolitan	1.0%	0	0.0%	N/A	Pioneer
Total Production		4,557			

** Based on management guidance and Alaska Field Notes October 2007*
Source: Company reports and eResearch

The fields in the Cook Inlet area, having produced since the 1960s, the fields in the Cook Inlet area are now mature and experiencing natural production decline. Between 2000 and 2005, average production from these fields, on a BOE basis, declined at an 11.1% rate per year. In 2006, production declined by 8%. Production is currently being stimulated by water-flood and the average water-cut (proportion of water in the recovered oil) now exceeds 90%. This has resulted in high lifting costs of about $30-$35 per barrel. Including depreciation and depletion charges, and taxes and allocated administrative charges the break-even production cost now exceeds $58 per barrel.

Pacific Energy management believes that the acquired properties hold considerable potential, both in terms of increased production from existing wells through the implementation of enhanced recovery techniques (such as waterflood) as well the prospect of new discoveries, of both oil and gas, on the extensive acreage acquired in the deal.

To that end, the Company is planning a major capital expenditure program over the next three years. The following table outlines these expenditures

Table 15: Alaska – Planned Capital Expenditures

US$ mill.	Development	Exploration	Total
2008	$6.5	$25.0	$31.5
2009	$11.0	$32.3	$43.3
2010	$65.0	$0.0	$65.0

Source: Company reports and eResearch

A portion of these expenditures will be spent as part of a recently announced US$200 million commitment by operating partner Chevron over the next three to four years. Chevron is also targeting both development and exploration activities in the area. The exploration activity will focus on deep prospects in Jurassic strata lying beneath existing producing fields that are postulated to hold a major oil find.

Exploration Prospects

A high priority exploration target in the Cook Inlet area is the Corsair prospect. Pacific Energy plans to spend approximately $50 million during 2008/2009 to drill this field. First evaluated in 2003 by Forest, pre-drill analysis indicated Corsair could contain 137 million barrels of oil, along with as much as 480 billion cubic feet of natural gas. Pacific Energy management regards gas as the more likely discovery, and has estimated the potential reserve to be between 70 and 500 billion cubic feet.

Under the terms of its lease for Corsair, the Company is obliged to start drilling no later than the end of 2008. Pacific Energy's exploration plan therefore envisions drilling to start in 2008 and extend into the following year. One well would be drilled in each year. While not essential to proceeding with the drilling program, the Company is actively pursuing the purchase of a jack-up rig, which could then be employed not only for Corsair, but for other Cook Inlet offshore prospects. It was recently reported in the Anchorage-based Petroleum News that Pacific Energy is looking at buying a jack-up rig from Rowan Companies Inc., which has three jack-ups for sale that would work in Cook Inlet. Currently there are no jack-up rigs in the Cook Inlet area.

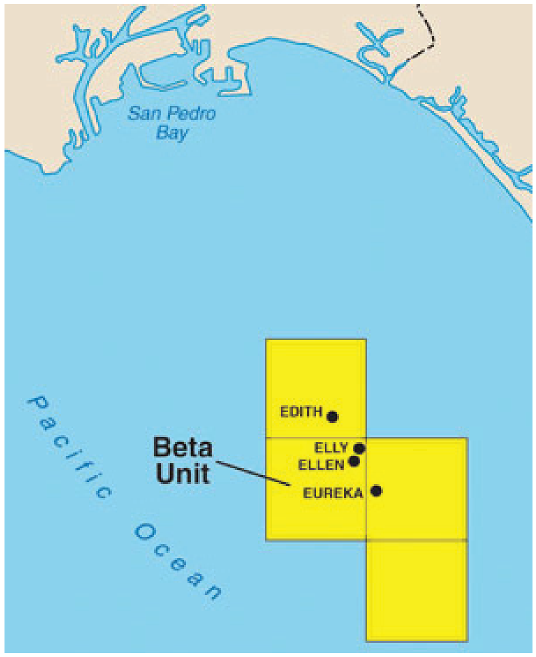
COMMENT: *Rowan's offshore rig utilization rate ran at 99% during the third quarter of 2007. Its average offshore day rate now stands at US$158,200, up 8% on a year-over-year basis. High demand has also prompted Rowan to order the construction of four new jack-up rigs, each at an estimated cost of US$175 million. Given its high debt levels, and the cost of such an acquisition (which we estimate could be between US$200-400 million), it is unlikely that Pacific Energy could execute such a major acquisition on its own. The only reasonable scenario would be to set up a joint venture in partnership with other operators in the Cook Inlet area (such as Chevron) who have exploration prospects in the area. Barring that, the Company will be obliged to contract a rig. Given the narrow window of opportunity for drilling Corsair (under the terms of the lease), confirmation from management as to the likely course of action in this regard would remove a material level of uncertainty and possible enhance share value.*

B. CALIFORNIA

1. Beta Unit (Offshore)

In November 2006, Pacific Energy acquired three oil rigs (Ellen, Eureka and Elly) located in federal waters 10 miles offshore from Long Beach, California. Also included are 17,280 net lease acres offering good future development drilling prospects. Together, the rigs and the acreage comprise the Beta Unit. The Company paid $1 for the property and accepted a future abandonment liability estimated at $127 million, the present value of which it has covered with approximately $90 million in U.S. Treasury Bills. Including additional costs related to other indemnity bonds, insurance and closing costs, the net acquisition cost was approximately $103.8 million. An independent reserve analysis by Netherland Sewell & Associates (NSA) estimated Proved Reserves of 20.3 million barrels of oil and 3.5 Bcf of gas, which it valued at approximately $200 million based on a 10% discounting of future net revenues inclusive of the abandonment charge liability.

Figure 3: Beta Unit



Source: Company

The estimated original oil-in-place at Beta was 600 million barrels of 14º API gravity oil, of which 96 million barrels of oil, or approximately 16%, have been produced.

Currently, production is approximately 1,600 Bbl/d, sourced exclusively from the Ellen platform. An additional 4,400 Bbl/d has been shut-in on the Eureka platform since 1999 due to pipeline integrity issues. Approximately $36.6 million in expenditures have been targeted to restore this shut-in production from the Eureka platform by early 2008. This will require the construction of a new two-mile pipeline link from the Eureka to the Ellen process platform. Additional work planned involves enhancements to existing processing facilities, reworking existing wells, and drilling 13 new wells from the platforms. During the third quarter of 2007, the Company achieved a major milestone in restoring Eureka production when it successfully completed a "smart pig" run in August of the dry crude transport line from platform Elly to shore.

While these efforts are ongoing, the Company continues to evaluate its shorter-term options for partial return of production in the early first quarter of 2008. The Company is evaluating proposals based on technical risk, incremental barrels, and the permitting process; but in any case, is optimistic about the prospects of seeing incremental production from Platform Eureka within the next six months. In addition to the Eureka return to production efforts, the Company is also actively pursuing its infill drilling opportunities on Platform Ellen, which will also add incremental production. The effort, planned for the second half of 2008, will begin with drilling rig upgrades.

By 2009, these enhancements are expected to increase Beta Unit production to over 6,600 Bbl/d net to Pacific Energy. Beyond that year, the Company plans to employ field-wide waterflood techniques to possibly recover as much as 20% of the field's remaining oil-in-place, which is estimated at over 400 million barrels. This could add an additional 80 million barrels to Proved Reserves.

COMMENT: *Restoring production from the Eureka platform constitutes the most significant near-term potential increase in oil production. The success of longer-term plans to raise production from the Beta Unit beyond 2009 will depend on the degree of success that can be achieved with the EOR techniques being proposed, and potential revisions to currently infill drilling densities, which are governed by Federal regulations. Based on our analysis, a Proved Reserve addition of 80 million barrels could add almost US$1 billion in incremental value to the Company.*

2. Wilmington Oil Field (Onshore)

The Wilmington Oil Field is California's largest oil field, producing over 40,000 Bbl/d of 14° API crude. The field has produced 2.6 billion barrels of its estimated 8 billion barrels of original oil in place ("OOIP"). Current production net to the Company is 380 Bbl/d.

Figure 4: Wilmington Oil Field

Source: Company

The Company plans to drill a total of 72 wells (57 producers, 15 injectors) over the next three to four years in an infill drilling program at Wilmington. The first three producing wells under the program produced approximately 50 barrels oil per day (Bbl/d) in 2006. A five-well (four producers, one injector) program is now underway and drilling is expected to take approximately three months. The budgeted cost per well is $800,000.

COMMENT: *Based on the declared development and operating costs, and assuming a US$65/Bbl oil price, the project should produce an NPV of $1.1 million per producing well and realize a 43% IRR. However, the total project NPV, net of the cost of the injection wells, should only reach about $54 million - a meaningful but less significant amount in light of the scale of the Company's other activities following the recent acquisitions.*

3. Long Beach Oil Field (Onshore)

The Long Beach Oil Field is located within the City of Long Beach, California. OOIP is estimated at four billion barrels. To date, Long Beach has produced over one billion barrels of oil or 25% of the OOIP. The field has been producing under water-flood since its inception in 1965.

Pacific Energy's productive acreage at Long Beach encompasses about 20 acres and current production net to the company is 65 Bbl/d of 25º API oil and 30 Mcf/d of natural gas. There are no development plans for this property.

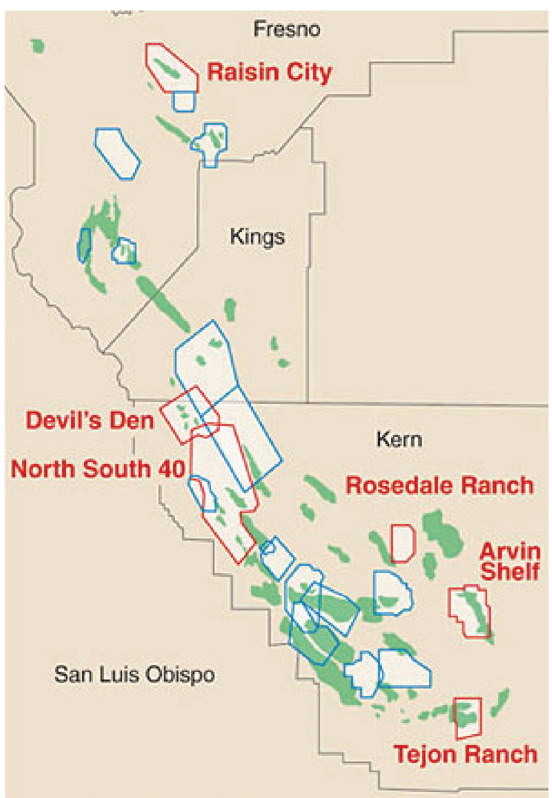
4. Rosecrans (Onshore)

The Rosecrans Oil Field is located within the City of Los Angeles, California. OOIP is estimated at 4 billion barrels. To date, the field has produced approximately one billion barrels or about 25% of the OOIP.

Pacific Energy's productive acreage at Rosecrans encompasses about 32 acres, with a 50% working interest in 6 wells producing 55 Bbl/d of oil and 120 Mcf of gas per day. Oil gravity is 30-35°API. The Company has no development plans for this property.

5. San Joaquin Valley (Onshore)

Figure 5: San Joaquin Valley



Source: Company

As a result of an acquisition in 2006, Pacific Energy now has a 99.5% working interest in 126 active wells in four oil fields (McDonald Anticline, Semitropic, Devils Den & Cymric) in the Kern County area of central California, producing 325 Bbl/d of light crude oil. The interest also includes 8,792 net acres of exploration land with extensive 3-D seismic and eight ready-to-drill locations.

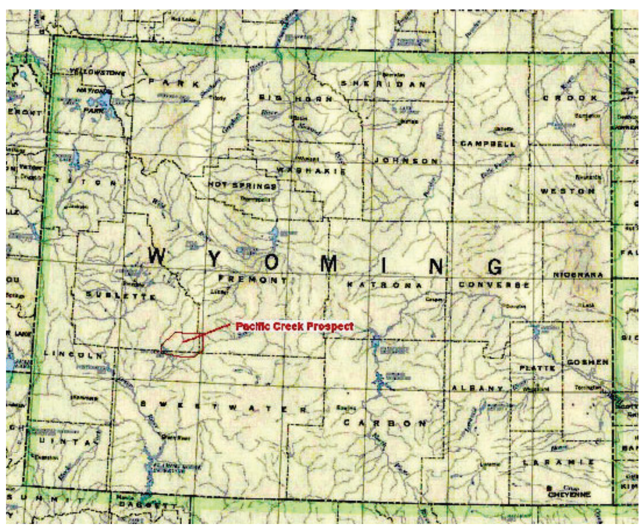
During 2007, the Company drilled two wells in its McDonald Anticline field in the San Joaquin Basin. The two wells are Mohawk Layman H-10 and Intex Layman 11. The wells are in the clean-up phase and show initial production of 20 barrels of oil per day. As these wells progress through the clean-up phase the production from these wells is expected to increase. Recoverable reserves for each could total between 30,000 and 80,000 barrels. Funds have been allocated to drill two additional wells at this site.

C. WYOMING

Green River Basin

On August 30, 2000, Pacific Energy entered into a Participation Agreement with Shell Oil Company of Houston, Texas and Wolverine Gas & Oil Corporation of Grand Rapids, Michigan. This agreement entitles the group to explore and develop oil & gas interests in a 99,000-acre area known as the Pacific Creek prospect. Under the terms of the agreement, Pacific Energy is required to complete two exploratory wells in the Area Of Interest in order to earn a 40% working interest in 85% of the area, and a 28% working interest in approximately 15% of the area.

Figure 6: Green River Basin



Source: Company

On November 1, 2007, the Company announced that it had completed the testing and frac stimulation of its Pacific Paladin 15-18 well. The well was drilled to a total depth of 13,851 and was designed to test the commercial viability of the Mesaverde and Lance formation in the "Paladin" area. This area totals approximately 4,000 acres on the west side of a fault that separates it from the "Ranger" area, a 7,000-acre prospective area.

The well was the first obligation of a two-well commitment under the Participation Agreement with Shell and Wolverine Oil and Gas. The well produced gas, condensate, and water at various zones. The Company has engaged an outside firm with local knowledge and expertise in the region to analyze the results and make recommendations on the appropriate next steps. Recommendations could include remedial work and further testing to determine the commercial viability of the well.

The Company is engaged in ongoing discussions with its partners on the next steps for the Paladin well and the planned Ranger well. The Ranger 7-21 well is still expected to spud in the mid-2008 timeframe and has a cost of $10 million.

Pacific Energy has engaged the same outside firm to analyze the Ranger 7-21 well drill program based on the logs of the Williams Exploration Federal 1-34 well. It is currently proposed that the Ranger well is be drilled to a depth of 21,000 feet. The decision to consider increasing the total depth of the Ranger well was based on both recent successful regional wells in the Hilliard Formation and the Williams Exploration well Federal 1-34, which was drilled in 1978 to a depth of 25,760 feet. The Williams well is located within the current Area of Mutual Interest.

Well log data for the Federal 1-34 well indicates potential gas-bearing sand in Ericson, Rock Springs, Blair, Baxter Shale (same as Hilliard), and Frontier formations. The Company estimates, based on well control, that more than 50% of the Area of Mutual Interest of approximately 100,000 acres is underlined by the formations described above. All activities are subject to agreement with the joint-venture partners and will be reviewed based on recommendations made by all parties.

COMMENT: *The Area Of Mutual Interest lies within reasonable proximity to the prolific Jonah gas field. Wells drilled within Jonah cost approximately $4-5 million to complete and realize Proved Reserves in the 7-10 bcf range. Recovery rates are estimated at 50%.*

APPENDIX 4: DCF MODEL – ASSUMPTIONS

Key assumptions of the valuation model are:

- A constant price assumption of $85/bbl for oil and $7.50/mcf for natural gas was employed across the seven-year initial period in the model.
- Long-term annual increases of 2% in lease operating expenses, general and administrative expense, and maintenance capital expenditures (in line with long-term U.S. inflation rates).
- A 12.59% equity discount rate based on an assumed risk-free interest rate of 3.75% and an estimated market risk premium of 4.5%.
- An approximate beta estimate of 3.0 was used. Due to its limited trading history, Pacific Energy does not have a well-established beta. Intermediate and Terminal Free Cash Flow growth rates of 8% and 3%, respectively, were employed.
- Near-term production growth assumptions were guided by management disclosures regarding the same.
- Reserve life index on existing Proved & Probable reserves of 20 years.

Table 16: DCF Model

	2008	2009	2010	2011	2012
Annual Production – Oil/bbl	4,064,877	5,385,575	6,553,575	6,834,625	7,053,625
Annual Production – Gas/Mcf	512,825	494,210	488,472	484,507	482,174
Annual Production – Gas/BOE	85,471	82,368	81,412	80,751	80,362
Annual Production – BOE	4,150,348	5,467,943	6,634,987	6,915,376	7,133,987
BOE/d	11,371	14,981	18,178	18,946	19,545
Forecast Oil & Gas Prices					
WTI Price	$89.61	$86.01	$84.65	$82.77	$82.26
Henry Hub Gas	$7.50	$7.50	$7.50	$7.50	$7.50
Basis Differentials					
Beta Unit – Bbl	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%
Los Angeles Basin – Bbl/d	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%
San Joaquin – Bbl	-15.0%	-15.0%	-15.0%	-15.0%	-15.0%
Alaska – BBL	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%
Natural Gas – Continental US	0.0%	0.0%	0.0%	0.0%	0.0%
Natural Gas – Alaska	-35.0%	-35.0%	-35.0%	-35.0%	-35.0%
Sales Prices					
Beta Unit – Oil - $/Bbl	$67.21	$64.51	$63.49	$62.08	$61.70
Los Angeles Basin – Bbl/d	$69.90	$67.09	$66.03	$64.56	$64.16
San Joaquin – Oil - $/Bbl	$76.17	$73.11	$71.95	$70.35	$69.92
Alaska – Oil - $/Bbl	$69.90	$69.90	$69.90	$69.90	$69.90
Natural Gas – Continental US - $/Mcf	$7.50	$7.50	$7.50	$7.50	$7.50
Natural Gas – Alaska - $/Mcf	$4.88	$4.88	$4.88	$4.88	$4.88
Production Costs (LOE, Transport)					
Beta Unit – Oil - $/Bbl	$30.00	$25.00	$23.00	$23.46	$23.93
Los Angeles Basin – Bbl/d	$12.55	$13.00	$13.00	$13.26	$13.53
San Joaquin – Oil - $/Bbl	$26.78	$25.00	$25.00	$25.50	$26.01
Alaska – Oil - $/Bbl	$32.00	$30.00	$26.00	$27.30	$28.67
Natural Gas – Continental US - $/Mcf	$4.73	$4.85	$5.00	$5.10	$5.20
Natural Gas – Alaska - $/Mcf	$2.65	$2.75	$2.90	$2.96	$3.02
Weighted Average Realized Price					
Crude Oil and liquids – $ Bbl	$69.10	$67.05	$66.46	$65.39	$65.06
Natural Gas – $ Mcf	$5.01	$5.01	$5.01	$5.01	$5.01
Realized Price Per BOE	$68.28	$66.48	$66.00	$64.96	$64.66
Average Lease Operating Expense (LOE)					
Crude Oil and liquids – $ Bbl	$27.79	$24.37	$21.76	$22.59	$23.35
Natural Gas – $ Mcf	$2.75	$2.86	$3.01	$3.07	$3.13
LOE Per BOE	$27.56	$24.26	$21.72	$22.54	$23.30
SG&A Per BOE	$3.00	$2.26	$1.86	$1.78	$1.73
RoyaltyRate Per BOE	$10.00	$9.00	$9.18	$9.36	$9.55
DD&A Rate Per BOE	$13.00	$12.50	$12.75	$13.01	$13.27
Revenue					
Total O&G Revenues	$283,371,635	$363,525,952	$437,935,847	$449,257,258	$461,261,697
Gain (loss) on sale of producing properties	$0	$0	$0	$0	$0
Total Revenue	**$283,371,635**	**$363,525,952**	**$437,935,847**	**$449,257,258**	**$461,261,697**
Expenses					
Production Costs (LOE)	-$114,369,755	-$132,633,945	-$144,078,834	-$155,874,041	-$166,221,081
Royalty Expenses	-$41,503,481	-$49,211,490	-$60,909,181	-$64,752,817	-$68,135,800
DD&A	-$53,954,525	-$68,349,292	-$84,596,085	-$89,934,468	-$94,633,055
General & Administrative	-$12,451,044	-$12,381,140	-$12,346,120	-$12,338,712	-$12,333,566
Stock Based Compensation	-$1,200,000	-$1,200,000	-$1,200,000	-$1,200,000	-$1,200,000
Interest Charges	-$46,010,885	-$36,812,714	-$30,000,000	-$30,000,000	-$30,000,000
Total Expenses	**-$269,489,690**	**-$300,588,580**	**-$333,130,220**	**-$354,100,038**	**-$372,523,502**
Income From Operations Before Taxes (EBT	$13,881,945	$62,937,371	$104,805,627	$95,157,221	$88,738,196
Other Cash Income/(Expense)	$4,225,000	$4,000,000	$3,800,000	$3,600,000	$3,600,000
Hedge – Realized Gain/(Loss)	-$7,040,180	-$22,292,729	-$19,656,310	$0	$0
Hedge – Unrealized Gain/(Loss)	-$12,584,764	-$18,593,404	-$15,063,253	$0	$0
Net EBT	-$1,517,999	$26,051,239	$73,886,064	$98,757,221	$92,338,196
Taxes	$50,000	$65,000	$14,777,213	$19,751,444	$18,467,639
Net Income	-$1,567,999	$25,986,239	$59,108,851	$79,005,776	$73,870,557
Free Cashflow Calculation					
EBT	$13,881,945	$62,937,371	$104,805,627	$95,157,221	$88,738,196
+ Stock Based Compensation	$1,200,000	$1,200,000	$1,200,000	$1,200,000	$1,200,000
+ DD&A	$53,954,525	$68,349,292	$84,596,085	$89,934,468	$94,633,055
+Other Income	$4,225,000	$4,000,000	$3,800,000	$3,600,000	$3,600,000
Hedge – Realized Gain/(Loss)	-$7,040,180	-$22,292,729	-$19,656,310	$0	$0
- Taxes	-$50,000	-$65,000	-$14,777,213	-$19,751,444	-$18,467,639
- Capex	-$125,300,000	-$79,800,000	-$80,200,000	-$7,200,000	-$7,200,000
- Debt Repayment	-$40,000,000	-$40,000,000	$0	$0	$0
- Change WC	-$5,617,000	-$1,500,000	-$1,500,000	-$1,500,000	-$1,500,000
FCF	-$104,745,710	-$7,171,065	$78,268,189	$161,440,244	$161,003,612
PV FCF	-$95,052,228	-$5,905,216	$58,487,552	$109,475,269	$99,075,412
PV FCF	$789,667,854				
Plus: Working Capital 2007 YE	$28,620,357				
Less: L/T Debt 2007YE	-$459,908,504				
Enterprise Value	$358,379,706				
Shares O/S 2008 YE	197,227,145				
Per Share EV ($US)	$1.82				
Per Share EV ($CDN)	$1.82				

Source: Company and eResearch

APPENDIX 5: D&D SECURITIES COMPANY DISCLOSURE

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NOTES

NOTES

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***e*Research analysts on this report: Eugene Bukoveczky, MBA, CFA :** Eugene Bukoveczky has considerable international oil and gas research experience. In Dubai, as a Senior Investment Analyst, he performed various responsibilities for one of the largest private client asset management operations in the Middle East, including establishing and managing a global emerging market equity investment portfolio that focused on large value-equity transactions. He also worked in Abu Dhabi as a Senior Business Analyst. Eugene also has extensive experience with risk management systems and derivatives trading assessment.

Bob Weir, B. Comm, B.Sc., CFA. Bob Weir has 40 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined *e*Research in 2004.

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Hold: Expected total return within the next 12 months is between 0% and 10%.

Sell: Expected total return within the next 12 months is negative.

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Operational - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.

Medium Risk: *Financial* - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.

Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry

Low Risk: *Financial* - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.

Operational - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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