

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our operating results and financial position should be read in conjunction with our audited financial statements for the fiscal years ended December 31, 2007 and 2006 and related notes (collectively, "financial statements"), which have been prepared in accordance with accounting principles generally accepted in Canada ("GAAP").

Forward-Looking Statements

Certain information in this discussion and analysis contains forward-looking statements and assumptions, such as those related to results of operations and financial condition, capital spending, financial sources, commodity prices, costs of production, results of acquisition projects, environmental risks, regulatory matters, and the magnitude of oil and gas reserves. By their nature, forward-looking statements are subject to numerous risks and uncertainties that could significantly affect anticipated results in the future and accordingly actual results may differ materially from those predicted as a result of a variety of factors, including without limitation, those described in the "Risk Factors" section of our most recent Annual Information Form and the following:

- prices of oil and natural gas may be subject to significant fluctuations;
- operating results following our acquisitions may not be as expected;
- competitive pressure among companies in the industry in which we operate may increase significantly;
- costs or difficulties related to the integration of businesses we acquire may be greater than expected;
- changes in the interest rate environment may adversely affect our asset values or increase our borrowing costs;
- general economic conditions, whether nationally or in the market areas in which we conduct business, may be less favorable than expected;
- legislation or regulatory changes may adversely affect the business in which we are engaged;
- the effects of technological changes or obsolescence relating to our products and services;
- the effects of government regulation or shifts in government policy;
- the reserve estimates presented in this discussion will differ from our actual results;



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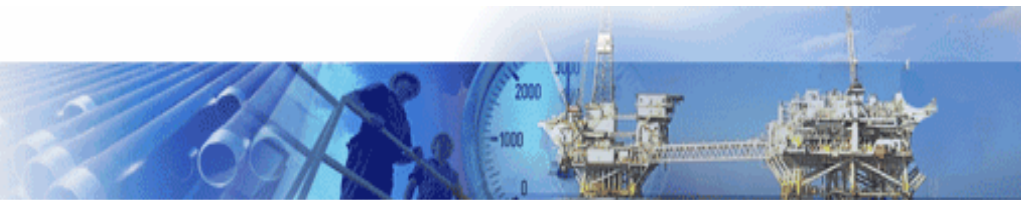
- the uncertainty of the productivity of drilled oil and natural gas wells may adversely affect our ability to produce oil and/or natural gas in commercial quantities;
- if we cannot meet our substantial capital requirements, our growth and operations may be hindered;
- weather disturbances or natural occurrences such as earthquakes could disproportionately affect our production or transportation due to our geographic concentration;
- significant changes in the cost or availability of gathering systems, pipelines and processing facilities may affect our ability to produce and market oil and natural gas;
- adverse changes may occur in the securities markets generally; and
- conditions in the equity and debt markets or our financial condition may render us unable to achieve desired reductions in our debt burden or overall cost of debt.

Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and as such, undue reliance should not be placed on forward-looking statements. We disclaim any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events, or otherwise, subject to our obligations under applicable securities laws.

Overview

We are an independent oil and gas production and development company with operations in both onshore and offshore California and Alaska. We are focused on the acquisition, exploitation, exploration and development of oil and gas properties. Our strategy is two fold: first, to develop our large inventory of proved undeveloped reserves and second, to focus on acquiring assets with low risk exploitation and development potential (proved undeveloped reserves) at below market multiples. We plan to supplement this low risk exploitation strategy from time to time by participating in exploration projects.

Our revenues increased as a result of price and production increases for both crude oil and natural gas and acquisitions completed over the last year. Because we cannot predict the certainty of sustained commodity prices in the future, we have entered into hedge contracts to ensure a minimum amount of cash flow is generated. We believe this minimum amount is sufficient to cover our existing debt service. The remaining unhedged portion as well as new production brought on line in the future remain subject to risk associated with the potential volatility and uncertainty around the underlying commodity prices. We may realize lower revenues if commodity prices decline and/or we are not able to sustain or increase our oil and natural gas production volumes. Since crude oil represents greater than 90% of our revenue, we are most at



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risk for declining revenues if crude oil prices or production fall. If crude oil prices are sustained or increase over time, we expect increased revenue. However, any price increases may be offset by decreased production volumes, existing hedge contracts, increased production costs, increased competition for drilling rigs potentially leading to higher drilling costs, and increased competition for producing properties. If crude oil prices decline, production costs may decrease, but at a slower rate than the rate at which the crude oil prices decline, reducing profitability.

Overall Performance

We realized a significant transformation during 2007. This transformation included the completion of the acquisition and transfer of operating responsibility of the offshore Beta Unit complex in California, redevelopment drilling onshore California in both our LA Basin and San Joaquin Basin properties, and the purchase of our Alaska assets from Forest Oil Corporation ("Forest Oil"). We believe all of these together have created significant opportunity for us to establish our self as a leading independent producer of oil and gas. In addition, we completed two equity private placements. Use of proceeds included the acquisition of the Beat Unit, paying down some debt on the Alaska facility, and to fund general working capital. To achieve some of the growth during 2007, we chose to take on additional debt to close certain transactions in a timely manner. The reduction of debt and restructuring of the balance sheet remain priorities for us in 2008. .

We restated our restricted cash position for the year ended 12/31/2006 from \$83.6 million down to \$73.7 million. This restatement was the result of a timing mismatch between cash held in a restricted escrow account as a result of the 2006 private placement that closed in 3 phases. One closed in December 2006, the other two closed in early January 2007. The reduced cash amount reflects a balance that was not held in this restricted escrow account at the year ended 12/31/2006 but rather was received into the account in early January 2007. There was no change to the actual amount of cash received in the restricted escrow account or eventually received by us.

Beta Assets (offshore San Pedro, California)

In March 2007, we acquired the Beta assets from Aera Energy LLC (a Shell-ExxonMobil joint venture), SWEPI LP (a Shell subsidiary) ("SWEPI") and Noble Energy, Inc. The acquisition agreements required us to deposit \$90.0 million in U.S. Treasury notes in a supplemental bond decommissioning trust account for abandonment and decommissioning purposes, provide an operating offshore bond of \$1.5 million, a working interest owner offshore bond of \$300,000, five years of insurance premiums for third party liability and well control of \$12.0 million, a one-time payment of \$6.93 million when certain production levels are met as defined in the purchase agreements and enter a new lease agreement with Mineral Management Services ("MMS") of the United States Department of the Interior. On March 25, 2008, we were granted a new 20-year lease for the San Pedro Bay pipeline from the State Lands Commission). We financed the acquisition with debt from an affiliate of The Goldman Sachs Group, Inc. and affiliates of Silver Point Finance LLC (see "New Debt") and approximately \$82.7 million in proceeds from the sale



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of 73.5 million shares of our common stock and warrants to purchase 36.7 million shares of our common stock.

We have owned and operated the Beta Unit since March 2007. The Beta Unit consists of three platforms: two production platforms (Ellen and Eureka) with one processing platform (Elly) capable of supporting both production platforms. Platform Eureka has been shut-in since 1999 at which time it was producing nearly 4,600 Boe/d. The primary strategic attractiveness of the Beta Unit was the potential to return Platform Eureka to production and operation. We have been active in fulfilling our obligations to both prepare Platform Eureka for additional production and to ready Platforms Ellen and Elly for additional work. We are currently preparing additional drill sites for wells off of Platform Ellen, which we expect to drill in the third quarter of 2008. Both Platforms Ellen and Eureka have the required drilling equipment on the platforms. We have also made considerable progress in preparing Platform Eureka for a partial return to production. A major step forward was accomplished when we completed the inspection of the 16-inch transport line from Platform Elly to the Beta station onshore. The inspection revealed no significant corrosion, which supports the long-term viability of the transport pipe. There was a requirement under our lender agreements to prove viability before any topside work could be done on Platform Eureka. Since this milestone was met in November 2007, we have been preparing for the return to production of Platform Eureka. We expect to have partial production in the range of 1,500 Boe/d in the second quarter of 2008, with a full return to production in the second half of 2008.

On March 27th, 2008, we received formal notice from the required regulatory authorities that our transport lines were approved for use to transport oil and gas from Platform Eureka to Platform Elly. We believe this represents a significant milestone for our Company and shareholders as this will now allow us to begin the process of turning on production from Platform Eureka.

Alaska Acquisition and Assets

We closed our acquisition of the Alaska assets from Forest Oil on August 27, 2007. Total consideration consisted of \$405.0 million in cash (consisting of \$400.0 million being paid to Forest Oil and approximately \$5.0 million in transaction costs), 10.0 million shares of our common stock, and a senior subordinated seller note issued to Forest Oil with a net present value at closing of approximately \$29.3 million. The acquisition consisted of the purchase of nine producing fields (five operated), three onshore facilities, seven platforms and six platform drilling rigs. In addition, we acquired 972,640 net acres of undeveloped leasehold (of which we currently hold 591,126 acres following the termination of an exploration license in November 2007) and a 50% interest in Cook Inlet Pipe Line Company ("CIPL"). Production averages approximately 4,500 Bbl/d. The non-operated producing properties are operated by Chevron Corporation ("Chevron") with redevelopment activities already underway. The Cook Inlet pipeline is also operated by Chevron and is the primary mode of transportation for any crude produced on the west side of the Cook Inlet.



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Operated Assets

In January 2008, we were approved by the Alaska Department of Natural Resources and State Lands Commission as an operator of our Alaska assets. That was the required event for us to convert the retained Forest Oil employees as well as additional hires over to full-time employees of ours. As such, we are no longer obligated to pay a monthly management fee of \$867,000 to Forest Oil. We have been working to optimize our operations, including cost reduction programs as well as initiating new drill sites. We plan to drill two wells off of the Redoubt Shoal Platform beginning in the third quarter of 2008.

Non-Operated Assets

We have been in discussions with Chevron regarding the approved Plan of Development for the non-operated properties. We have met with Chevron several times to discuss the development activities over the next several years. Activity relating to the Chevron plan of development has been ongoing for the last few months. We are expecting some production interruptions during 2008 while maintenance work, submersible pump replacements, and drilling upgrades are completed to optimize the platforms for drilling in late 2008 and early 2009. As such, we do not expect to see any significant production increase for the non-operated properties until 2009.

Exploration Activity

With our current acreage position in Alaska, we are one of the largest leaseholders in the Cook Inlet. Included in these leaseholds are three high potential gas exploration targets offshore in the Cook Inlet. They are known as Corsair, Raptor, and Valkyrie. We are encouraged by the early data, which includes 2D and 3D seismic data as well as previous core sample data from the 1960s for the Corsair prospect. The State of Alaska has accepted an amendment to the plan of exploration under the Corsair Unit to extend our deadline to initiate drilling of the Corsair Unit and Valkyrie prospect from December 31, 2008 to June 30, 2009, with a second well to be drilled immediately if the first well is successful. Corsair is a potential 500 Bcf play in which we have a 100% working interest in 26,731 acres. Gas prices for the Cook Inlet have steadily increased over the last two years and are expected to continue to increase as current gas production in the region is declining, further enhancing the attractiveness of these high potential exploration targets. We continue to have discussions relating to sourcing and financing of the required drilling equipment to drill the Corsair prospect. We have also explored options for drilling the Valkyrie prospect off of our existing Osprey platform infrastructure. In addition, we have hired an independent engineering firm to evaluate the exploration prospects for the purpose of bringing partners in for sharing costs of the drilling equipment as well as the actual exploration prospects. We believe that a 100% ownership in the prospects is not necessary to provide a fair return to us.



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LA Basin and San Joaquin Basin Redevelopment

In the summer of 2007, we began our drilling program at both the Wilmington oil field in the LA Basin and the McDonald Anticline field in the San Joaquin Basin. Subsequently, we completed five wells at the Wilmington oil field. The initial stabilized production from the wells ranged from 49 Boe/d to 81 Boe/d. All wells are directional. The average well drilling and completion cost was \$1.25 million. During the same period, we drilled two wells in our McDonald Anticline field in the San Joaquin Basin. The two wells are Mohawk Layman H-10 and Intex Layman 11. The Mohawk Layman H-10 and the Intex Layman 11 were both completed and currently produce a combined average of 50 barrels of oil per day. We are currently evaluating options to drill an additional two wells in 2008 at our San Joaquin Basin properties.

Wyoming Green River Basin Update

In Wyoming the Paladin 15-18 well was drilled in March 2007 and cemented to a total depth of 13,851 feet. This well is located approximately 20 miles southeast of the Jonah gas field. On July 18th, the Company announced that the completion activities for the Paladin 15-18 well have commenced. The fracture stimulation has begun and the Company expects the well fracture stimulation and production testing to be completed within 45 days. A total of 10 fracture stimulation stages were carried out in the Mesa Verde and Lance sands. A mix of gas, condensate, and water were found in various zones, but the Company and its contractors were unable to control the water contamination. The company hired an independent engineering firm to evaluate the well options as well as the risks associated with drilling the Ranger well. The Company has determined that the first well is not economic and has subsequently expensed the drilling costs and costs associated with plugging and abandoning the well. Management has initiated negotiations with its partner Shell to determine if new deal economics can justify the cost of drilling the Ranger well. The Company is still evaluating its options and will make a decision in the next few weeks.

Form S-1 Registration Statement

On February 12, 2008, we filed on Form S-1 a Registration Statement with the U.S. Securities and Exchange Commission ("SEC") in fulfillment of our registration rights obligations. Once effective the filing represents the opportunity for us to pursue a US listing of our equity. We believe this will provide greater liquidity to current investors as well as access to additional pockets of liquidity from US investors. The registration process can take several months before a company becomes registered. We do not expect our Registration Statement to become effective before the end of May 2008 timeframe. We are currently evaluating our listing options and expect to make a decision regarding a US equity listing and exchange in the second half of this year.



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Results of Operations

Results of Operations—For Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Factors Affecting Comparability

We acquired or commenced operations of the vast majority of our assets at various dates in 2006 and 2007. Our results of operations from period to period are not comparable because of the effects of the various acquisitions that we have completed as well as the increased costs associated with these acquisitions and our limited history of operating these assets. Our expected growth through planned development of our assets is likely to continue to limit the comparability of our results of operations.

Revenues

Revenue for the year ended increased to \$105.2 million up from \$11.4 million from the year ago period representing an 817.0% increase. The increase was primarily attributable to the addition of production beginning in March 2007 from the Beta Unit representing \$34.1 million or 32.5% of the total and partial year oil production from the Alaska properties of \$49.5 million or 47.0% of the total. Revenue was up from the previous quarter from \$31.8 million to \$52.2 million. The 64.2% increase was primarily due to the additional month of production for the Alaska properties (only 2 months were included in the Q3 numbers) and the increase in the market prices for the crude production.

	Alaska	Beta Unit	LA Basin	San Joaquin	Total
Oil Production (Barrels)	596,029	536,520	197,623	120,727	1,450,899
Realized Price/ Barrel	\$83.06	\$63.71	\$64.57	\$67.81	\$72.12
Oil Revenue	\$49,505,654	\$34,181,331	\$12,761,047	\$8,186,319	\$104,634,351
Gas Revenue	\$0	\$0	\$569,706	\$0	\$569,706
Total Gross Revenue	\$49,505,654	\$34,181,331	\$13,330,753	\$8,186,319	\$105,204,057
% of Field Contribution \$'s	47.06%	32.49%	12.67%	7.78%	100.00%
% of Field Contribution Barrels	41.08%	36.98%	13.62%	8.32%	100.00%
LOE	\$27,614,889	\$25,264,236	\$3,221,364	\$2,576,506	\$58,676,996
LOE/ Barrel	\$46.3	\$47.1	\$16.3	\$21.3	\$40.4

Production Expenses

Production expenses increased to \$58.7 million for 2007 up from \$3.8 million from 2006. The 1452.7% increase is due to the addition of production operations from Beta and Alaska. The expense as a percentage of revenue increased from 33.0% to 55.8% reflecting an increased cost of operating in an offshore environment. Management expects a reduction in production expenses as a percentage of revenue as it continues to gain operational experience with its assets. The reduction in production expense on a percentage basis is expected to come from a switch to more efficient pumping mechanisms as well as optimized staffing including a reduced dependence on the use of contract labor.



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The production expenses were up from the third quarter period from \$20.0 million to \$26.2 million due to the increased contribution of the Alaska assets.

Transportation Expense

Transportation expense is due to the tariff paid to the Cook Inlet Pipeline Company (CIPL) of which we are a 50% owner. The expense is recognized as a revenue on the financial statements of the CIPL. While the CIPL does maintain a greater than \$20 million cash balance, no disbursements are expected to be made at this time. We expect that the Transportation expense related to the CIPL will increase during 2008 as a result of the transportation tariff being reset to a higher level. Management expects the increased tariff to add as much as a ½% increase to its expenses, but expects this increase in tariff to be offset by the additional value created in the CIPL.

Royalty Expense

Royalty payments increased substantially from \$227 thousand in the year ago period to \$19.8 million for the year ended period. This increase is due to royalties that must be paid to the MMS for Beta Unit operations, lender overrides, and royalties paid to the State of Alaska. The largest royalty payment is to the MMS for the Beta unit operations, however, we do not expect significant increases in the Royalty expense as a percentage of revenue as the MMS royalty formula provides for a maximum cap on the percentage of oil and gas revenue we must pay. Based on the formula for computing this royalty, we do not expect to significantly increase the percentage paid to the MMS.

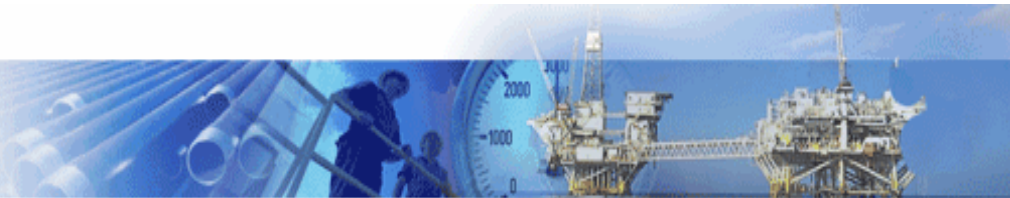
Hedging Expense

Our exposure to gains and losses on hedging is primarily due to the hedges we have in place for the Beta Unit and Alaska properties production. See the Financial and Other Instruments section for a schedule of the material hedge contracts currently in place. We have not entered into any new hedges during the Q4 period, but will evaluate entering into new hedge contracts in 2008 as additional production from the Beta Unit and Alaska properties are initiated. We continue to evaluate the effectiveness of our risk management policies particularly as it relates to commodity prices.

In addition, we are currently experiencing high diesel fuel costs for operating Platforms Ellen and Platform Elly in the Beta field. Shipments are received daily to the platforms and, collectively, this commodity represents approximately 25.8% of our Beta lease operating expense. We are currently working on programs to reduce the need and frequency of diesel shipments. These programs include subsurface power lines between platforms and the potential use of gas produced at our platforms to power the platform generators. Platform Eureka produced gas prior to being shut down in 1999.

General and Administrative Expenses

General and Administrative expenses increased to \$10.1 million up from \$4.4 million for the year ago period representing a 131.8% increase from the year ago period. Management believes the expense as a percentage of revenue is normalizing at 9.6% of revenue versus the year ago amount of 38.6% of revenue. We also announced that we have been approved as operator of



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the Alaskan assets. As such we are no longer required to pay the \$867,000 monthly management fee to Forest Oil. We expect some of this savings to be absorbed through additional technical hires at the corporate level, but do expect approximately \$600 thousand per quarter of savings going forward.

Stock Compensation

Stock Compensation increased to \$3.5 million up from \$1.7 million from the year ago period. The 3.3% of revenue expense is expected to stay flat. The increase in expense was due to our Stock Option plan which allowed for options to be given to the Beta Unit employees as they were hired in the April 2007 timeframe as well as additional options as new employees are hired. We believe that ownership in the Company by all employees at all levels is essential to our future success. As such we expect to continue to issue options including options to the newly hired employees of the Alaska operations.

Liquidated Damages

The Liquidated Damages Shares represent the fair value of the underlying shares that we could be liable to issue. As part of the private placement closed in January 2007, certain registration rights were granted along with the shares. These registration rights obligated us to file a Form S-1 Registration Statement with the US Securities and Exchange Commission by the end of August 2007. If this deadline was not met, the agreement provided for liquidated damages shares payable in the amount of 1% of the total shares purchased per month to shareholders who had not sold until the statement was filed. There is a maximum of 10% of the total shares purchased to be issued. In August we were in the midst of closing the Alaska acquisition and an additional equity private placement. Due to the disclosure requirements necessary in the Form S-1 Statement, we were not in a position to file the Registration Statement at that time. On February 12, 2008, we announced that we filed the required form with the US SEC. If the we do not become effective with the SEC within the next three months, we may again be liable issue additional liquidated damages shares, however, in no event will the total amount exceed 10% of the originally purchased shares.

Interest Expense

Interest expense increased from \$10.4 million to \$59.9 million from the year ago period. The additional expense represents a 477.2% increase in expense. The increase is primarily due to the additional debt incurred as a result of the Alaska acquisition financing. See the New Debt section for a detailed breakdown of the current debt burden. In October as a partial use of the funds from the \$65.5 million private placement, we reduced our higher cost Tranche B-2 debt by \$40 million. The reduction of debt is a strategic priority for us, and we are continuing to explore ways in which the debt burden can be reduced. By way of example, we are exploring the use of additional credit facilities, refinancing current facilities, divestitures of non-core assets, access to restricted cash, and excess cash flow from incremental Beta and Alaska production. We aim to reduce our debt burden by 25-30% throughout 2008 as well as reduce our overall cost of debt by several points.

Depreciation, Depletion, and Amortization

Depreciation, Depletion, and Amortization expense increased from \$1.5 million to \$29.5



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million as a result of the Beta Unit and Alaska assets additional facilities and production as well as the write down of the Paladin well in Wyoming. This increase represents an 1899.5% increase from the year ago period and an increase from 12.9% of revenue to 28.1%. Without the one time write down charge of \$11.0 million for the Wyoming Paladin well, the Depreciation, Depletion, and Amortization expense would have increased from \$1.5 million to \$18.5 million representing an increase of 1153.4% increase with a change from 12.9% of revenue to 17.6% of revenue. We expect this percentage to be representative of the rate that we will realize throughout 2008.

	Alaska	Beta Unit ⁽¹⁾	LA Basin	San Joaquin	Total
Depreciation/Depletion	\$ 9,803,125	\$ 663,342	\$ 683,785	\$ 1,896,031	\$ 13,046,283
ARO Asset Amortization	193,671	1,272,272	15,610	119,273	1,600,826
ARO Accretion	334,644	2,322,173	54,103	38,391	2,749,311
General Exploration	7,142	-	32,280	1,060,682	1,100,104
Total DDA	10,338,582	4,257,787	785,778	3,114,377	18,496,525
Wyoming Drilling Costs					11,016,030
PERL Total					29,512,555

(1) Beta includes San Pedro Bay Pipeline Company

Net Loss

We recorded a \$98.7 million net loss for the year ended December 31, 2007, up from a \$12.0 million net loss from the year ago period 2006. The 721.3% increase is the result of additional interest expense as a result of the Alaska acquisition, the \$11.0 million write down of the Wyoming Paladin well, and additional Depreciation, Depletion, and Amortization expense. As mentioned above, we expect to reduce our debt burden and overall cost of debt as well as realize additional revenue from incremental production from Platforms Ellen and Eureka. As such we expect the Net Loss to decrease in 2008. We do not expect to be Net Income positive until the second half of 2009 subject to various uncertainties including the full return of production of Platform Eureka and successful execution of Chevron's plan of development for the non operated assets in Alaska.

Balance Sheet

Our cash position decreased from \$15.0 million from the year ago restated period to \$10.7 million for the year ended. Our cash balance as of March 21, 2008 was \$21.7 million with an additional \$47 million available to us under our various credit agreements subject to certain conditions being met including collateral coverage ratios and absolute lender approval.

Our total asset base increased by 370.6% to \$691.8 million up from \$147.0 million from the year ago period. This increase is the result of the assets added by the Alaska assets acquisition.

Our equity makeup changed throughout the year as a result of our two private placements that closed in 2007 and as a result of the incentive warrant offering that closed in January 2008. See Warrants Exercised and Outstanding Share Data sections for additional detail.

In addition our total proved reserves changed substantially as a result of the



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additional reserves acquired in the Beta Unit and Alaska assets transactions as well as changes to the fixed and forward looking crude price. Our proved reserve base increased by 383% from the year ago period.

Other Opportunities

We continue to actively evaluate and pursue potential producing reserve acquisitions in our strategic areas of operation. We are also pursuing strategic relationships to exploit our exploration projects in the Alaskan Cook Inlet area as well as divestiture opportunities for our non-core assets to reduce debt and potentially fund accelerated working capital.

Capital Resources and Liquidity

Our future growth depends on the development and exploration of our oil and natural gas properties and the acquisition of additional properties, each of which requires large capital expenditures. We have projected these capital expenditures to be in excess of \$50 million for 2008. Given our cash position of approximately \$21.7 million as of March 21, 2008 and our estimation that we will not become earnings positive before 2009, we will need to raise money to fund these planned capital expenditures.

Historically, we have financed our capital expenditures primarily through debt and equity financing. In the future, we may finance these capital expenditures through the proceeds from equity offerings, borrowings under our existing credit facilities or one or more lines of credit we may pursue, cash flow from operations, possible asset divestitures or a combination of these methods. Future cash flows and the availability of financing will be subject to a number of variables including if our efforts to bring Platform Eureka back on line are unsuccessful, our future production will be less than expected and we have substantial capital requirements that, if not met, may hinder our growth and operations.

The credit facilities requires that we raise net cash proceeds of at least \$50 million by June 30, 2008 and an additional \$85 million by March 31, 2009 from the sale of our common stock (or, upon approval by the lenders, preferred stock or convertible debt), lender-approved divestitures or other capital-raising activities as may be reasonably satisfactory to the lenders. Our credit facilities requires that the funds raised by June 30, 2008 be used to fund a lender-approved plan of development, our working capital requirements or such other uses as may be approved by the lenders. Of the proceeds raised by March 31, 2009, at least \$85 million must be used to prepay indebtedness under the Alaska second lien credit agreement. Proceeds in excess of \$85 million that are not used to prepay the second lien credit agreement must be deposited into our credit facility lockbox accounts and may be used for exploration and development and working capital purposes as permitted by the approved plan of development or as otherwise permitted by our credit facilities.

Under the present environment in the energy industry and the strong prices for oil and natural gas, we believe we are in a reasonable position to raise capital at reasonable rates from outside sources while retaining enough cash from existing operations to meet foreseeable working capital needs, capital expenditures, long-term debt repayments, and other financing activities. We



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also expect to continue acquiring desirable oil and gas properties and therefore may need additional capital.

In light of our two equity raises since November 2006, or if crude oil prices decline significantly below their current levels, we may have a more difficult time than expected raising additional funds and our obligation to raise additional funds may need to be met by lender-approved divestitures or other capital-raising activities as may be reasonably satisfactory to the lenders. Nevertheless, we believe that as we execute on our business strategy, our ability to raise proceeds through equity should become easier.

We have several sources of liquidity that we may need to consider accessing, including approximately \$35 million and \$12 million available under our credit facilities (subject to lender approvals), access to a portion of the restricted cash account via surety bond options, cash flow from incremental production, and potential asset divestitures. Each of our existing and projected sources of cash are affected by operational and financial risks that influence the overall amount of cash generated and the capital available, including, among other things, changes in commodity prices. If we are unsuccessful in accessing any or all of these additional sources of liquidity, we may be required to adjust the timing, location and number of wells to be drilled.

Cash Flows for Years Ended December 31, 2006 and 2007

The following table summarizes our net cash provided by or used in our operating activities, investing activities and financing activities for the years ended December 31, 2006 and 2007.

000	2007	2006
Net cash provided by (used in) operating activities	(\$7,175)	\$6,821
Net cash provided by (used in) investing activities	(\$471,544)	(\$14,434)
Net cash provided by financing activities	\$474,399	\$17,062
Net change in cash	(\$4,320)	\$10,591

Net cash used in operating activities was \$7.2 million compared to net cash provided by operating activities of \$6.8 million. The (\$13.9 million) change in net cash provided by (used in) operating activities in 2007 was due primarily to the significant increase in interest and financing costs due to the Alaska and Beta acquisitions that have not yet been offset by the increase in net operating income from these operations. As noted previously, we expect that as production is returned to Platform Eureka and the current phase of platform maintenance is wrapped up, production expenses as a percentage of oil and gas revenues will decrease. However, we do not expect to be earnings positive before 2009.

Net cash used in investing activities increased substantially to \$471.5 million for 2007 compared to \$14.3 million for 2006. The increase was due to the acquisition of the Alaskan assets.



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Net cash provided by financing activities increased \$457.3 million to \$474.4 million for 2007 compared to \$17.1 million for 2006. Cash provided by financing consisted of net proceeds received as part of the two private placement equity raises we completed in 2007. Cash used for financing consisted of drawdowns on our credit facility for the Beta purchase and the Alaskan assets acquisition.

Under the present environment in the energy industry and the strong prices for oil and gas, we are in a strong position to raise capital at reasonable rates from outside sources as well as have enough cash from the existing operations to meet any foreseeable capital needs. We currently have an additional \$47 million available under our credit facilities to draw down on subject to lender approval upon certain conditions being met. We additionally expect to have increased cash flow as a result of incremental production from Platform Eureka in the late April timeframe. Based on the average realized price for Midway Sunset crude (which are most analogous to the crude produced in the Beta Unit), we expect to generate an additional \$10 million of revenue per quarter based on the initial return to production of Platform Eureka of approximately 1500 barrels per day. We expect to have a full return in excess of 4000 barrels per day in the second half of the year. Based on the 2007 average realized price, the incremental production from a full return to production of Platform Eureka would generate an additional \$23 million per quarter of revenue. Any incremental production is not currently hedged. As such there may be additional upside in these numbers based on the current crude pricing versus the average realized price for crude in 2007.

New Debt

We incurred a significant increase in our outstanding debt burden during 2007 as a result of the Alaska acquisition. The following schedule provides some detail of our current outstanding debt schedule including both interest bearing and non-interest bearing obligations. The Alaska acquisition was financed primarily with first and second lien debt financing provided by an affiliate of The Goldman Sachs Group, Inc. and affiliates of Silver Point Finance LLC. In addition, we closed on a \$65.5 million equity private placement in October 2007. Proceeds from this offering in the amount of \$40.0 million were used to reduce the Alaska second lien borrowings, with the remainder allocated for general working capital purposes. Pursuant to the terms of borrowing, we have also entered into cash flow hedge programs for a portion of our Beta and Alaska production (see "Financial and Other Instruments" below).

The Alaska seller note is a senior subordinated accreting note with an initial accreting value of \$29.3 million. Immediately after our issuance of the note, the accreted value increased to \$31.7 million and, unless repaid earlier, continues to increase on July 31 of each year until the July 31, 2014 maturity date, at which time the accreted value would be \$60.8 million. We record each year's principal balance increase ratably over the year as interest expense.



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Corporate Debt Overview

Description	12/31/2006	6/30/2007	9/30/2007	12/31/2007
Goldman Sachs (Beta Sr. Secured)	\$ 28,145,953	\$ 65,000,000	65,000,000	\$ 65,000,000
Alaska 1st Lien	-	-	108,000,000	108,000,000
Alaska 2nd Lien	-	-	317,000,000	277,000,000
Laurus Note (Carneros)	20,770,419	20,643,852	20,643,852	20,656,480
Face Value of Notes Payable	48,916,372	85,643,852	510,643,852	470,656,480
Forest Zero Coupon Note	-	-	29,250,000	29,976,000
Accrued Interest	-	-	2,391,251	8,269,341
Total Face Value of Debt	\$ 48,916,372	\$ 85,643,852	\$ 542,285,103	\$ 508,901,821
Unamortized Transaction Costs	-	(8,163,189)	(33,350,830)	(27,943,816)
Current Portion of Long Term Debt	(1,500,000)	(1,500,000)	(1,500,000)	(430,000)
Note discounted - Goldman	(2,851,824)	(9,211,611)	(8,498,751)	(27,096,625)
Note Discounted - Laurus	(7,108,772)	(5,687,018)	(4,976,141)	(4,265,263)
Balance Sheet Long Term Debt	\$ 37,455,776	\$ 61,082,034	\$ 493,959,381	\$ 449,166,116

Warrants Exercised

We had warrants exercised during 2007 based on the following amounts:

	Number	APIC	\$/Share
Canadian Exercised (4/1/07-6/30/07)	1,007,650	\$ 1,576,054.22	\$ 1.56
Canadian Exercised (7/1/07-9/30/07)	153,000	241,623	\$ 1.58
Canadian Exercised (11/2/07)	898,150	1,499,403	\$ 1.67
Broker Exercised (11/16/07)	10,000	14,762	\$ 1.48
Total Exercised in 2007	2,068,800	\$ 3,331,842	

Cash & Cash Equivalents

As of March 21, 2008, we had an unrestricted cash balance of approximately \$21.0 million. Approximately 95% of the unrestricted cash position is held in a lockbox account to be used for approved redevelopment projects.

We will continue to evaluate our need to raise funds to execute on our development plans for the Beta Unit and the Alaskan assets. We are exploring recapitalization strategies that will reduce the overall debt burden, reduce the overall cost of debt, and allow for a partial use of funds for general working capital. In addition we are exploring the divestiture of non core assets to pay down debt and fund general corporate working capital. We believe that these non core assets can yield highly attractive multiples based on the current high crude prices and the inherent value of the underlying proved reserves.

Future Dividends



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We have not declared or paid any cash dividends on our capital stock in the past, and we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. In addition, our credit facilities prohibit the payment of dividends without lender consent.

We will pay dividends on our common stock only if and when declared by our board. Our board's ability to declare a dividend is subject to restrictions imposed by Delaware law. In determining whether to declare dividends, our board will consider these restrictions as well as our financial condition, results of operations, working capital requirements, future prospects and other factors it considers relevant.

Off-Balance Sheet Arrangements

We have entered into crude hedging contracts which are discussed below in the Financial and Other Instruments section in more detail. These production swap contracts require us to make a settlement payment for any rise in the market price of crude oil above the contract price (schedule below) regardless of our actual production levels. While we believe we have appropriately mixed our hedged and unhedged portion of our crude production, we are at risk for paying these settlement prices in the event of either significant increases in the market price of crude or decreases in our actual realized production volumes.

Related Party Transactions

We report transactions with related parties at their fair value as determined by management.

- As of December 31, 2007, we owed \$61,000 to various related parties for amounts incurred by us on behalf of the related parties.
- During 2007 we incurred legal costs of approximately \$385,000 with the law firm of Devlin Jensen. Devlin Jensen is our Canadian counsel, and Pat Devlin was a member of our board of directors.
- During 2007 we recorded royalty expense in the amount of \$263,000 to an entity owned by an employee for an overriding royalty on our Wilmington property. That override was granted at the time we originally purchased the LA Basin assets. As of this filing, the individual is no longer an employee of ours.
- We have entered into numerous transactions with an affiliate of The Goldman Sachs Group, Inc. and affiliates of Silver Point Finance LLC, who are significant stockholders, note holders, and have other influence as disclosed in the notes to our financial statements for the years ended December 31, 2007 and 2006.

Changes in Accounting Policy

Pursuant to Section 3865, we have designated the oil commodity hedges adopted during the 3rd quarter as cash flow hedges. The hedge volumes are detailed in the section below (Financial and Other Instruments). The purpose of these hedges is to protect against the exposure to variability in the expected cash flows attributed to the underlying commodity prices. For derivatives designated as cash flow hedges, the effective portion of the derivative's gain or loss



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are initially reported as a component of Other Comprehensive Income and later reclassified to earnings when the forecasted transaction impacts earnings. The ineffective portion of the gain or loss is immediately reported to earnings. The hedge contracts previously adopted by us have been designated as fair value hedges. Changes in the fair value associated with these hedges are immediately recorded to earnings. There are no changes to how these contracts have been previously recorded. No additional hedge contracts were entered into during the fourth quarter of 2007.

For other changes to significant accounting policies during 2007, please refer to the accompanying notes to the audited financial statements.

Financial and Other Instruments

Our financial assets and liabilities consist of cash, short-term investments, receivables, accounts payables, notes payable, and accrued liabilities. We have placed its cash and cash equivalents in liquid bank deposits, which provide a variable rate of interest. We have significant bonding obligations for several of its operations which require the purchase of some form of surety. To date we have funded our bonding obligations by placing cash in restricted accounts and securing its obligation 100% by the estimated bonding amount. We have engaged an outside firm to evaluate its options for collateralizing some of its less liquid assets as a means to free up some of the restricted cash which currently are in excess of \$100 million.

Due to the historical volatility of crude oil and natural gas prices, as well as credit agreement requirements, we have an ongoing hedging strategy aimed at reducing the variability of the prices we receive on our production and providing a calculable minimum revenue stream. Currently, we have entered into production swaps aimed at ensuring a minimum amount of revenue is realized sufficient to cover our existing debt burden. As we layer on incremental and new production, we will review the effectiveness of our commodity risk management strategies. The following table provides an overview of the most material hedging contracts currently in place. These cover both the Beta and Alaska operations.

Alaska Oil Price Hedge Details				Beta Oil Price Hedge Details			
Year	Begin	End	Price per Bbl	Year	Begin	End	Price per Bbl
(monthly volume in Bbls)			(\$)	(monthly volume in Bbls)			(\$)
2007	96,389	94,045	\$ 69.75	2007	26,259	25,908	\$ 65.39
2008	92,899	81,482	68.16	2008	25,659	23,554	59.57
2009	80,536	71,029	67.21	2009	22,868	20,904	57.26
2010	70,235	41,255	67.21	2010	20,394	27,088	57.14
2011	38,399	15,578	67.21	2011	25,625	23,859	55.90
2012	15,410	14,090	67.21	2012	23,289	7,035	55.52

We are also required under our credit agreements to hedge against the interest rate risk



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associated with the variable portion of our long term debt facilities. We are currently evaluating strategies for providing protection against the risk of rising interest rates. Per our current credit agreements and the associated amendments, we were required to enter into interest rate hedges on or before March 22, 2008. We have currently not entered into any interest rate hedges at this time. We have been in discussions with our lenders to discuss the appropriate strategy, timing, and amount of interest to swap.

Outstanding Share Data

We issued additional stock, options, and warrants during the 2007 period. Additionally, warrants were issued in October 2007 as a result of the \$65.5 million private placement. The following tables represents our outstanding shares and options as of December 31, 2007.

	Number of Shares	Share Capital	Additional Paid In Capital
Balance – December 31, 2005	56,964	\$ 6	\$ 16,109
Warrants exercised	4,981	-	6,049
Debentures converted	536	-	403
Laurus debt converted	3,398	-	3,545
Bateman debt converted	803	-	900
Common stock issued	10,916	2	12,525
Balance – December 31, 2006	77,598	\$ 8	\$ 39,531
Warrants exercised	2,068	-	3,332
Shares issued for acquisitions	10,000	1	24,630
Shares issued for debt	4,750	1	11,255
Shares issued for debt issue costs	3,097	-	7,000
Stock options exercised	31	-	27
Shares issued for damages	648	-	1,624
Common stock issued	88,450	9	120,030
Balance – December 31, 2007	186,642	\$ 19	\$ 207,429

Options Outstanding			Options Exercisable		
Exercise Price (CAD)	Number of Options (in thousands)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Outstanding (in thousands)	Weighted Average Exercise Price
\$0.84	3,069	2.92	\$0.84 CAD	2,111	\$0.84CAD
\$0.84	100	.92	\$0.84 CAD	68	\$0.84CAD
\$1.40 to \$1.60	1,910	2.5	\$1.55 CAD	1,910	\$1.55CAD
\$1.73 to \$3.00	6,923	4.10	\$2.75 CAD	300	\$1.93CAD
	12,002	3.50	\$2.06 CAD	4,389	\$1.22 CAD

Additional warrants were issued in January 2008 as a result of the warrant offering and



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will be further disclosed in our Q1 2008 statements. The Aggregate Potential Damages Shares represents the maximum amount that we could be liable to issue. As part of the private placement closed in January 2007, certain registration rights were granted along with the shares. These registration rights obligated us to file a Form S-1 Registration Statement with the US Securities and Exchange Commission by the end of August 2007. If that deadline was not met, the agreement provided for damages shares payable in the amount of 1% of the total shares purchased per month to shareholders who had not sold until the statement was filed. There is a maximum of 10% of the total shares purchased to be issued. In August we were in the midst of closing the Alaska acquisition and an additional equity private placement. Due to the disclosure requirements necessary in the Form S-1 Statement, we were not in a position to file the Registration Statement at that time. On February 12, 2008, we announced our filing with the US SEC.

Selected Quarterly Information

The following tables show revenue and income data of the most recent eight quarters:

	March 31, 2007	For the Three Months Ended			December 31, 2007
		June 30, 2007	September 30, 2007	December 31, 2007	
Total Oil & Gas Revenues	\$6,845	\$7,752	\$31,829	\$52,237	
Net Income (loss)	(\$6,452)	(\$12,292)	(\$20,309)	(\$59,700)	

	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Net Income (loss)	(\$133)	(\$492)	(\$900)	(\$10,499)

The \$59.7 million net loss for the fourth quarter includes the \$11.0 million write down of the Wyoming Paladin well.

Subsequent Events

All subsequent events have been fully described in the text above and the accompanying notes to the audited financial statements.

Business Risks & Risks Management

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking, which statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements. Our long-term commercial success depends on its ability to find, acquire, develop, and commercially produce oil reserves. We attempt to reduce these risks through the combination of experienced personnel with local knowledge and careful evaluation. External factors beyond our control may affect the marketability of the oil and gas produced. We have selected appropriate personnel to monitor field operations and have automated some field information where possible so that difficulties and operational issues can be assessed and dealt with on a timely basis and production maximized as much as possible.

Oil and gas exploration, development, and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and spills, each of which could result in damage to wells, production



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facilities, other property and environment, or in personal injury. In accordance with industry practice, we insure against most of these risks (although not all such risks are insurable). We maintain liability insurance in an amount that it considers consistent with industry practice; although the nature of these risks is such that liabilities could potentially exceed policy limits. We also reduce risk by operating most of our current properties; as such we have control over the quality of work and performance.

We anticipate making substantial capital expenditures in the future for exploration, development, acquisition, and production of oil and gas reserves. If our revenues or reserves decline, we may have limited ability to expend the capital necessary to undertake or complete future development programs. There can be no assurance that debt or equity financing will be available. We mitigate this risk by monitoring expenditures, operations, and results of operations in order to manage capital effectively. In addition, we have significant commitments and contingencies that may impact its ability to grow in the future.

Future Prospects

We are optimistic about the growth potential of the Company. We have a large number of proven undeveloped locations in inventory to be drilled. The prospect of returning Platform Eureka to production should add substantial growth in proved reserves and production in 2008 and beyond. We have a significant acreage position with various attractive exploration targets. Although there are some mechanical/operational challenges inherent in areas of its operations, with proper risk management and careful evaluation, we believe that we can achieve growth in production and reserves.

Internal Disclosure Controls

We place considerable diligence on the appropriate capture and reporting of financial information. We further recognize the need for timeliness with respect to management reporting to the appropriate internal personnel including the Chief Executive Officer and the Chief Financial Officer among others, and the importance of effectively communicating relevant information to the investor community. With that in mind, we have designed internal controls specifically aimed at providing a reasonable level of assurance that material transactions are reported, accounted for properly, and effectively communicated to key decision makers within the organization.

While no internal control system will prevent intentional omissions or fraud, we believe we have designed a system appropriate for the current level of complexity we are managing. While we believe that the current internal disclosure controls are adequate, we continue to focus considerable attention to further strengthening the segregation of duties along with the overall framework of internal control over financial reporting. As we have seen significant growth and transformation during the 2007 timeframe, we have further evaluated our processes and controls to ensure they are adequate for our organization. During the second half of the year, we hired an independent firm to assess the overall strengths and gaps of our current internal control framework as well as to make recommendation based on financial risk. This evaluation will be presented to our audit committee. We have already begun addressing some of the recommendations and will continue to evaluate the need to augment our procedures over time.



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In accordance with Multilateral Instrument 52-109, our Chief Executive and Chief Financial Officers are required to sign individual Certifications of the Annual Filings. These have been filed separately from the Management Discussion and Analysis and are available for viewing on SEDAR.com.

