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Interview with Darren Katic President of Pacific Energy Resources (From April 17, 2007)

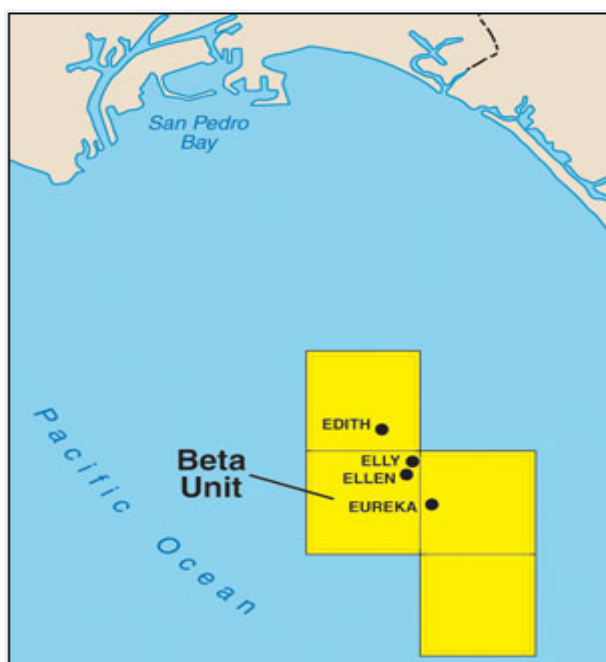
One of our favorite oil and gas stock pickers over the last year or two, who's done amazing at picking stocks, has been *Andy Gustajtis of Dominick and Dominick*. With the huge move in *Rally Energy* and some of his other favorite stocks, he's had to change his top picks and now *Pacific Energy Resources* is his number one pick. It was time to visit with the *Darren, of Pacific Energy*, to get an update on this story and this is a confusing story, isn't it?

Darren: It is. It's an unusual story with a lot of moving parts and a complex execution strategy, but I think as it plays out over time the shareholders will benefit greatly as we succeed through that complex strategy of primarily bringing *Platform Eureka* back online and of course ultimately fully redeveloping the Beta Field – offshore California.

David: This offshore California oil – you're actually getting producing fields from Majors, which isn't usually the way it happens....

Darren: No that's right. Over the last few years the Majors with the exception of a few offshore platforms have divested themselves of these assets – primarily because they've become small opportunities to them, as well as, I think strategically they're moving out of California, and in their wake they have left a lot of good opportunities. There have been a lot of successful companies built on this strategy, that have actually grown into mid-size independents you know the *Plains Energy* and *Venoco Inc.* – some good success stories), but we feel we have actually one of the most attractive assets offshore with big reserves and an unique situation where you have almost 5,000 barrels a day shut in only because a pipeline that connects Production platform Eureka to processing platform Elle needs replaced (Approximately a 2 mile line).

David: How big are these two fields and how soon can total production been seen?



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Offshore Platform Eureka



Offshore Platform Ellen Elly

Darren: The Beta Field is essentially a complex of three offshore Platforms - two producing Platforms (Ellen and Eureka) and one processing Platform (Elle). The Ellen Platform is currently producing about 2,100 barrels a day and Eureka is currently shut in, as I have mentioned.

Now, we believe that ultimately we can recover an additional 65 million barrels as indicated in our reserve report. It could be closer to 100 million barrels depending how affective some of our enhanced oil recovery techniques pan out, but it is a big field - 600 million barrels of original oil in place of which only about 100 million barrels have been produced, which is very low recovery factors for a field like this.

David: Now, it is quite a story of how you actually got these fields from the Majors. Which Majors were they and didn't it take like 18 months to get these negotiations done?

Darren: It did. We essentially acquired the field from a company known as *Aera Energy (LLC)*. It's the largest oil producer in California - producing almost 200,000 barrels of oil a day. *Aera Energy* is owned jointly by *Shell* and *ExxonMobil* at about 50% each.

So you can imagine - this relatively small asset for them inside a large company like Aera which is in turn is owned by two giant companies, ExxonMobil and Shell. It was hard for us to get their attention, of course, a small asset to them we believe is a company maker for us.

It took us about a year and half to negotiate the purchase of the asset and then of course a few months to go through the regulatory process and now we own 100% working interest in the Beta unit - three federal offshore leases as well as the transport pipeline - and we are approved by the US federal government as the owner and operator of the oil field.

So, it was a huge undertaking for a company of our size not only acquiring the asset from Major oil companies, which are historically more difficult to deal with, as well as regulatory hurdles.

David: What kind of a production do you see from these fields down the road and secondly and possibly more importantly, how nervous should one be about having an oil and gas asset in California?

Darren: Well, we ultimately feel comfortable that the field can produce north of 10,000 to 12,000 barrels a day, and possibly even higher depending on EOR activity. In its "hay-day" in the 80's when these Platforms were installed, it produced well over 20,000 barrels a day.

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Page 3

This particular asset has never gone through the natural progression that we see in oil fields where they first are produced by the Majors then divested to small independents then again down to smaller companies and so on and so forth and ultimately go through the re-development phases, so this is the first round of re-development phase for Beta and we feel comfortable that it can produce conservatively north of 12,000 barrels a day.

In terms of the United States – California is a major oil producer (number four, behind Louisiana, Texas and Alaska). It produces close to a million barrels a day, not to mention the State's natural gas production. Of course, it uses 2 million barrels of oil a day so domestic production is very valuable here in California.

We're one of the largest producing States in the country and if you look at recent M&A activity in the United States, and I can't speak for Canada, but California production per producing barrel sells pretty much higher than any State in the country.

That's primarily due to the long life nature of California reserves such as the Beta Field or Wilmington Field, which is where we have some of our onshore production. That field, Wilmington, was discovered back in the 1930's and is still producing over 40,000 barrels of oil a day.

David: Now the other area of the world that you have interest in is Wyoming, which is an area that has been very kind to companies like *Ultra Petroleum* and others. If you could give us an update there?

Darren: Sure. As you know we T.D. our first exploratory well in the Pacific Creek Project back in February (it's called) Paladin in the Green River Basin area of Wyoming. It was a deep test and it's close to the Jonah Pine-dale Fields. We plan on completing the well in July once the Sage Grouse mating season is over.

We have 500 to 700 feet of perspective pay that we plan on a complex fracture stimulation job during completion. We are incredibly excited about the well, we think it will be a productive well and the really exciting part of it is that if the well does turn out to be a productive well, which we believe it will, this thing will be a giant discovery, the aerial extent is so big that it really would be a huge, huge discovery!

David: This is not a cheap deal you did with *Shell* there is it?

Darren: It's not! We have one more well to drill to earn, we spent about \$4 million on seismic, we spent about another \$4 million drilling the well and we have spent about \$1 million so far on completion activities and we'll spend some more. Of course, we have another well to drill, the Ranger well, which we plan on drilling after we complete Paladin.

It's an expensive undertaking to earn a 40% working interest in 100,000 acres, but given everything that's going on around us, not a bad deal at all in this really hot area, lets see how the wells test and then we will know. I think *Questar Resources* is having some deeper success recently, I think they press released that they had 11 million cubic feet a day out of I think what they call the Baxter, and we have that all under our lease too.

So we actually in the process of modifying our Ranger well plan to go down and test some of the deeper formations that have proven successful near by us! It continues to look better and better as our offset operators in the area continue to have success.

David: As we stated, this is a little bit of a confusing story – a California company trading on a Canadian Exchange – that's going to be taken care of shortly right?

Darren: That's right! A U.S. company traded up in Toronto is not a structure one would design; it was something that we inherited from a business combination we did rolling up some of our onshore assets.

To get to the critical mass that we wanted to pursue the offshore transaction – as part of recent financing we have started the undertaking of listing in the United States, we will file a registration statement with the SEC within the next 45 days and hope to be through that process shortly after (six to eight months) after we file.

And of course, if one is going to go through that process it makes sense to go ahead and list on a US Exchange, which we are hopeful we'll have completed by the end of the year.

David: Well let's look at what can go wrong? What can go wrong in California that might cause you to lose sleep?

Darren: One distinction that's important about our offshore assets is that we are in Federal waters and the main jurisdictional body over the assets is the MMS, which is the federal agency US department of Interior.

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Page 4

Essentially we're under the same types of rules that they have in the Gulf of Mexico - in terms of getting drilling permits, which is not the case for all the platforms in California.

So, we're not in as difficult regulatory environment as one would think just being offshore California, but having said that there are hurdles here that we feel confident we can get by, but I think our risk is really in execution.

As far as our production development goes (non exploration activities) we don't feel we have geological risk given the amount of well control and other data points we have, we don't have transportation risk in as much as we own our pipelines to market and we don't have Hurricane risks, which of course recently has been a big issue for offshore producers.

So, you know, being in the oil business there are certain risks that one can not avoid and I feel our risk profile is very low compared to a lot of other companies and just really being limited to execution risks - drilling risks essentially.

David: The last question we usually ask our Company Presidents is, if you had to buy another stock other than your own and you're going to suggest to your best Buddy a stock that might be a double down the road, which one would you pick knowing that it can't be your own or one that you have a conflict of interest with?

Darren: Well, just being in California and following a lot of the California public entities down here, I have been following Breitburn Energy (NASDAQ:BBEP) which just recently did a public offering and I am familiar with some of their assets and their management, I also think we will be seeing a lot more of the LP structure down here in the US. I think that they have been a good success story and I also like their stock.

I also think Venoco Inc. (NYSE:VQ) is a very good stock.

Disclosure: Canaccord has recently participated in a financing for Pacific Energy Resources.

They have also recently gone through the public process and their stock was a little beaten up out of the gate, but I think it's a good buy. I also think that they have some solid assets and I am familiar with those assets.

They are one of our competitors, but they produce offshore and onshore California. I think that they are both solidly managed companies and I like their asset base.

David: Okay one last question. A year from now what will the price of oil be and the price of gas?

Darren: A year from now.....let me get my "crystal ball" out and take a look! You know it is an interesting discussion, we've been looking at the possibility of hedging some of our onshore production, but I am bullish on oil.

I think that oil will remain between \$60.00 and \$70.00 – and possibly go higher depending on what happens politically around the world. Long term, I think both oil and gas will remain strong.

I am a little bit more nervous with gas in the short term then I am with oil, but being an oil guy I have more of a long term vision and try not to worry myself too much with the short term fluctuations in commodity pricing.

Basically what our strategy is to have a certain amount of commodity hedging to remove some of the short term volatility, particularly as it relates to whatever your company breaks even is – in terms of your debt load and every thing else. I think it's a pretty good strategy.

But, I think oil will be \$60.00 and \$70.00 and I hope to see gas move higher towards the \$8.00 or \$9.00 range. I am not sure it will in the short term, if I had big gas production I would probably be hedging it right now.

David: Thank you very much for your time, Darren.

DEB'S DITTY:

I told my husband whenever I'm down in the dumps,
I buy myself a new outfit.
He told me, "Oh, so that's where you get them."

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