



Pacific Energy Resources
Management Discussion & Analysis
Three Months Ending March 31, 2006
Preparation Date: May 14, 2006

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PACIFIC ENERGY RESOURCES LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of Pacific Energy Resources Ltd is for the quarter ending March 31, 2006. This information is current to May 14, 2006. The discussion and analysis of the operating results and financial position of the Company should be read in conjunction with the Company's unaudited interim Financial Statements for the three months ending March 31, 2006 and the audited Financial Statements and related Notes ("the Financial Statements") for the year ending December 31, 2005, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) (see Summary of Significant Accounting Policies and Nature of Operations).

ABBREVIATIONS

Crude Oil & Natural Gas Liquids

bblsbarrels
bbls/dbarrels per day
mbblsthousands of barrels
mmbblsmillions of barrels
mmboemillions of barrels of oil equivalent
mbbls/dthousands of barrels per day
mmbbls/dmillions of barrels per day
boe/dbarrels of oil equivalent per day
mboe/dthousands of barrels of oil equivalent per day

Natural Gas

mcfthousand standard cubic feet
mmcfmillion standard cubic feet
mcf/dthousand standard cubic feet per day
mmcf/d million standard cubic feet per day

Currency

\$ United States Dollars
CDN\$...Canadian dollars

Forward Looking Statements

Certain information in this MD&A contain forward-looking statements and assumptions, such as those related to results of operations and financial conditions, capital spending, financial sources, commodity prices, costs of production, results of acquisition projects underway, 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. The forward-looking statements contained herein are as of May 14, 2006 and are subject to change after this date. 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. The Company disclaims any intention or obligation to update or revise these forward-looking statements,

whether as a result of new information, future events or otherwise.

Overview

The Company completed the first three months of 2006 with more than \$7 Million cash at hand (\$3 Million restricted fund for drilling at certain leases). Crude oil & gas prices remained strong resulting in a gross margin of over 60% from oil & gas production. Tight supply of workover & drilling rigs continued to impact the Company's ability to service producing wells & drill new wells.

The Company made excellent headway towards its efforts to acquire Aera Energy's interest in the Beta Field, offshore California, USA. A Purchase and Sales Agreement (PSA) is currently under review by the Company. The acquisition will be financed by debt and equity funds. The Company has entered into an agreement with a major New York investment bank, to provide substantial portion (up to \$100 Million) of the debt needed for this acquisition. A number of investors have shown interest to participate in the equity portion of this transaction. If progress continues as anticipated, the Company will complete this transaction by June 2006.

The Company is also in the final stages of due-diligence in connection with acquiring an oil & gas producing company, located in Bakersfield, California, USA. The due-diligence process will be completed by first week of June 2006. This company currently produces about 325 BOPD. It has a number of underdeveloped and undeveloped assets. If progress continues as anticipated, the Company will complete this transaction by June 2006.

The Pacific Creek project is moving forward on schedule. Five wells have been staked. A drilling rig has been selected for drilling on first well expected to start drilling in October 2006. The permitting process for drilling of these wells will start by June 2006.

The Company is transitioning from a small independent oil & gas producer to mid-sized independent oil & gas producer. Upon completion of the two projects mentioned above, we expect the Company's oil and gas production to increase five folds. We expect further production enhancements from all properties during the next few years.

Selected Financial Data

	As at and for the Quarter	
(\$)	2006-Q1	2005-Q4
Total revenue	2,056,166	2,235,163
Production expenses per BOE	16.67	14.93
Cash at year end	4,166,940	4,409,014
Total assets	22,634,346	22,488,559
Earnings (loss) per share	0.00	-0.02

The Company is in a strong financial condition. As of March 31, 2005, it holds 100% interest in Net Proved Reserves of 10.5 Million BOE. DeGolyer and MacNaughton, a Houston based Independent Engineering and Consulting Firm completed an evaluation of the Company's reserves as of September 1, 2005.

The net earnings for first three months of 2006 were impacted by the Company's acquisition efforts resulting in high legal and interest expenses.

Results of Operations

The Company's total oil production for the quarter was 40,274 barrels of oil equivalent (BOE). Production for the quarter was less than the previous three quarters due to several wells being down and the short month of February. These wells were brought back into production during the months of March and April.

Quarterly Production Volumes (BOE)

Year	Q1	Q2	Q3	Q4
2006	40,274			
2005	18,433	42,280	42,087	43,698

For the quarter ending March 31, 2006 the gross revenue and expenses from production were \$2,056,166 and \$806,861 respectively. The Company has a gross margin of \$1,249,305 for the period (60.7% of the revenues). The Company had a net loss of \$133,266 for the quarter (\$0.00 per share). The comparisons with first quarter of 2005 are not meaningful due to the acquisition of PetroCal on March 2, 2005. Production expenses were \$16.67 per BOE.

Warrants Exercised

In March 2006, 666,666 warrants were exercised in the amount of \$341,968.03.

Cash & Cash Equivalents

On March 31, 2006 the Company had cash and cash equivalents of \$7,282,526; compared to \$7,509,113 on December 31, 2005 (out of this, about \$3,100,000 is restricted for drilling on various leases). The working capital surplus was \$6,167,518 on March 31, 2006 compared to a surplus of \$5,078,549 on December 31, 2005.

Credit Facility Agreement

In late 2005, the Company entered into an agreement with a large New York investment bank to provide a senior secured credit facility of up to \$100 Million debt financing for the purpose of acquiring three offshore platforms along with Oil & Gas reserves associated with

Beta Field from Aera Energy LLC, a partially owned subsidiary of Exxon-Mobil. We anticipate releasing more detailed information on this in the next two months.

Pacific Energy continues to raise capital to fund its acquisition and development program in California. There is however, no assurance that any future funding can be accomplished, as it would be wholly dependent on the state of the capital markets for junior exploration companies. Given the current high prices being paid for crude oil, the market has been able to fulfil industry needs to date.

Future Dividends

The Company does not anticipate the payment of dividends in the future.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

There were no related party transactions during the first quarter of 2006.

Financial and Other Instruments

The Company has placed its cash and cash equivalents in liquid bank deposits, which provide a variable rate of interest.

Outstanding Share Data

The Company has one class of common shares. On March 31, 2006, there were 57,630,204 common shares outstanding. The increase for 2006 reflected the issue of 666,666 shares as a result of the exercise of warrants.

The Company has a stock option plan. 100,000 stock options were granted on February 22, 2006 at CDN\$1.52 per share.

Subsequent Events

The Company is in the process of completing due-diligence in connection with the proposed purchase of all shares of an oil & gas company. More information on this will be available at the beginning of June 2006.

Business Risks & Risk 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.

The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil reserves. Pacific Energy attempts to reduce these risks through the combination of experienced personal with local knowledge and careful evaluation.

Commodity price fluctuations can pose a risk to the Company, and management monitors these on an ongoing basis. External factors beyond the company's control may affect the marketability of the oil and gas produced. The Company currently has no hedging instruments in place although it has in the past and may decide to do so in the future.

The Company has selected appropriate personnel to monitor field operations and has some automated field information where possible, so that difficulties and operational issues can be assessed and dealt with on a timely basis, and so that production can be 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 facilities, other property and environment or in personal injury. In accordance with industry practice, the Company insures against most of these risks (although not all such risks are insurable). The Company maintains 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. The Company also reduces risk by operating all its current properties; as such it has control over quality of work and performance.

The Company anticipates making substantial capital expenditures in the future for exploration, development and acquisition and production of oil and gas reserves. If the Company's revenues or reserves decline, it 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. The Company mitigates this risk by monitoring expenditures, operations and results of operations in order to manage capital effectively.

Future Prospects

Management is optimistic about the growth potential of the Company. The Company has a large number of proven undeveloped locations to be drilled. Although there are some mechanical challenges inherent in our main area of current operations, the Wilmington Oil Field, our preliminary results are positive and point to an asset with much undeveloped potential. With proper risk management and careful evaluation management believes that the Company will continue to grow.