

Pacific Energy Resources Ltd.
Management Discussion & Analysis



Three Months Ending September 30, 2006
Preparation Date: November 13, 2006

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Management Discussion & Analysis
PACIFIC ENERGY RESOURCES LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (“MD&A”) of Pacific Energy Resources Ltd. (“the Company”) is for the three months ending September 30, 2006. This information is current to November 13, 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 September 30, 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
bopdbarrels of production per day
mbblsthousands of barrels
mmbblsmillions of barrels
mmboemillions of barrels of oil equivalent
mbbls/dthousands of barrels per day
mmbbls/d ..millions 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/dmillion standard cubic feet per day

Currency

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

Forward Looking Statements

Certain information in this MD&A contains 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

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actual results may differ materially from those predicted. The forward-looking statements contained herein are as of November 13, 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 third quarter of 2006 with a gross margin of about 70% from oil and gas production. For the third quarter of 2006, the gross revenues were 62% higher than the comparable period of last year.

New Wells at Los Angeles Basin Property

The Company drilled two production wells and one injector well in its Wilmington Field leases. The production wells are going through the clean up phase but are already producing about 70 bopd. The injector is injecting about 450 bbl/d of water.

Offshore Acquisition

The Company has signed a definitive Amended and Restated Purchase & Sale Agreement with Aera Energy LLC regarding the sale of its 71% interest in the Beta Unit, offshore California. The execution of the definitive agreement details the specific steps to consummate the proposed transaction. The definitive agreement anticipates that the escrow opening to occur on or before November 15, 2006. Subsequent to the escrow opening date, the transfer of interest, regulatory and compliance documents will be submitted to the Minerals Management Service ("MMS") for review and approval. Upon the approval of the regulatory and compliance documents by the MMS, the Corporation will be recognized as operator of the Beta Unit and record title owner of the Aera interest. The parties anticipate that such final MMS approvals will be obtained to permit a final closing on or before March 31, 2007.

Netherland Sewell & Associates (NSA) estimated Proved Reserves of 19.78 Million barrels of 14° API oil and 3.23 Bcf of gas as of May 1, 2006 for the Unit. It also estimated 11.61 Million barrels of Probable oil reserves, 1.93 Bcf of Probable gas reserves, 31.26 Million barrels of Possible oil reserves and 4.84 Bcf of Possible gas reserves. These estimates are based on forecasted price scenario and have PV10% values of US\$ 193.90 Million, US\$ 89.29 Million and US\$121.14 Million for Proved, Probable and Possible reserve categories respectively.

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The Beta Oil Field is located in San Pedro Area, in Federal waters nine miles offshore Long Beach, California. The leases in question are POCS 300, 301 and 306. A complex of two production platforms (Eureka and Ellen) and a facilities Platform (Elly) handle production from these leases. Platform Edith, also in the Beta Oil Field in lease POCS 296 is neither owned nor operated by Aera and is not included in this acquisition.

The Beta Field was discovered in 1976 by Shell Oil Company. Production started in 1981 from Platform Ellen. Production began on Platform Eureka in 1985. Peak production from the Beta Field was 20,800 barrels of oil per day in 1986. Cumulative production through 2004 for Platforms Ellen and Eureka is estimated at 78,000,000. Eureka accounted for nearly 38,000,000 barrels of oil from 1985 until the production was idled in 1999, at which time it was averaging over 4,400 barrels of oil per day. Aera and its predecessor companies have operated and maintained Platforms Eureka, Ellen and Elly since they were installed in the 1980s.

As part of the acquisition process, the Company is required to submit to certain federal, state, and local regulatory governmental agencies executed transfer documents and other regulatory compliance forms sufficient to allow the Corporation own and operate those certain federal oil and gas leases, platforms, facilities, equipment, pipelines, rights-of-way, permits, and licenses which are part of the Beta Oil Field. The MMS located in Camarillo, California, is the primary federal regulatory agency responsible for the management of federal lands, subsoil and seabeds located on the Outer Continental Shelf off of the California coast. In connection with the filing of the requisite transfer documents and compliance forms, the Corporation will submit lease development bonds, a right-of-way bond, supplemental abandonment bonds and other securities acceptable to the MMS in an amount in excess of \$90 Million along with Certificates of Financial Responsibility evidencing insurance coverage of \$35 Million. The Corporation will also submit additional bonds and certificates of insurance to the applicable state and local agencies having regulatory authority over state lands offshore of the California coast and other state and public lands onshore located in the Long Beach, California area.

Wyoming Exploration Project

The Company has made considerable progress on the Pacific Creek project. The Drilling Permit Application for the first well (Pacific Paladin 15-18) and two alternative locations has been filed with Bureau of Land Management. We expect to receive approval in the next two weeks. A drilling rig (Unit 109) has been selected and the terms are being negotiated. Lease construction bids have been received and construction contract is expected to be awarded immediately after permit approval. The Materials for the well are being ordered. We expect to spud the well before mid December.

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Selected Financial Data

	For third quarter ended September 30 th	
	2006	2005
(\$)		
Total revenue	3,803,049	2,348,660
Production expenses per BOE	15.32	22.91
Cash at period end	3,034,385	1,171,194
Total assets	48,325,117	12,242,889
Earnings (loss) per share	(0.01)	0.00

At the present, the Company holds close to 100% working interest in Net Proved Reserves of 15.1 Million BOE as evaluated by DeGolyer and MacNaughton for the Los Angeles County Basin properties and by Netherland Sewell and Associates for the San Joaquin Basin properties (independent engineering and consulting firms). In addition, these independent firms have evaluated 10.4 Million BOE of Probable Reserves and 5.2 Million BOE of Possible reserves in the Company's properties.

Earnings for the third quarter of 2006 were impacted by the Company's efforts to acquire Beta Unit and the resulting in legal and due diligence expenses.

Results of Operations

The Company's total oil production for the third quarter of 2006 was 75,428 barrels of oil equivalent (BOE). This compares with a production of 42,087 barrels of oil equivalent (BOE) for the comparable period of 2005.

Quarterly Production Volumes (BOE)

Year	Q1	Q2	Q3	Q4
2006	40,274	41,843	75,428	
2005	18,433	42,280	42,087	43,698

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For the third quarter ended September 30, 2006 the gross revenue and expenses from production were \$3,803,049 and \$1,155,855 respectively. The Company had a gross margin of \$2,647,194 for the period (70% of the revenues). The Company had a net loss of \$899,723 for the third quarter (\$0.01 per share) due to high costs associated with acquisition efforts. Production expenses were \$15.32 per BOE for the third quarter of 2006 as compared to \$22.91 per BOE for the similar period in 2005, a reduction in expenses of 29.5%.

Warrants Exercised

In August 2006, 3,714,286 warrants were exercised in the amount of \$3,622,171.71. To induce the exercise of these warrants, an additional 2,000,000 warrants were issued at an exercise price of \$1.60 per warrant.

Note debt converted

On October 3, 2006 \$771,092.98 was converted into 1,000,000 common stock shares. It is anticipated that the remaining \$3,337,456.79 will be converted in the fourth quarter.

Cash & Cash Equivalents

On September 30, 2006 the Company had cash and cash equivalents of \$3,034,385; compared to \$1,171,194 on September 30, 2005.

Credit Facility Agreement

In late 2005, the Company entered into a tentative 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, owned by Exxon-Mobil and Royal Dutch Shell.

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.

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Related Party Transactions

There were no related party transactions during the third 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 two classes of shares. On September 30, 2006, there were 63,033,597 common shares issued with 200,000,000 common shares being authorized. On June 16, 2006, 50,000,000 preferred shares were authorized but not issued.

The Company has a stock option plan. 1,400,000 stock options were granted on June 30, 2006 for an exercise price of \$1.60 per share.

Subsequent Events

None to report

Business Risks & Risk Management

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking and are subject to risks and uncertainties that 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 in order that production can be maximized as much as possible.

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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

The Beta acquisition, when completed will increase the Company's Oil & gas production to about four hundred percent. In addition, the Company has a large number of proven undeveloped locations to be drilled. The recently drilled three wells in the Wilmington leases show easy drilling conditions and good oil saturation as interpreted from the electric logs. These results point to an asset with much undeveloped potential. With proper risk management and careful evaluation management believes that the Company will continue to grow.