

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of Pacific Energy Resources Ltd. (the "Company") is for the period ended September 30, 2007. This information is current to November 12, 2007. The discussion and analysis of the operating results and financial position of the Company should be read in conjunction with the Company's unaudited Financial Statements and related Notes ("the Financial Statements") for the period ending September 30, 2007, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

## 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, 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 November 12, 2007 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.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Overview

Pacific Energy Resources Ltd. is an independent oil and gas production and development company with operations both onshore and offshore California, Alaska, and Wyoming. The Company is focused on the acquisition, exploitation, exploration, and development of oil and gas properties. The strategy is two fold: first to develop its large inventory of proved undeveloped reserves and second to focus on acquiring assets with low risk exploitation and development potential (Proven Undeveloped Reserves) at below market multiples. The Company will supplement this low risk strategy from time to time by participating in high impact exploration projects.

## Overall Performance

The Company has realized significant growth during the first nine months of 2007 as result of the execution of its strategy. This growth has come from all facets including its Beta and Alaska acquisitions, redevelopment efforts of its LA Basin and San Joaquin Basin assets, and drilling activities at its Wyoming acreage. All of these activities have helped to propel the Company to an enterprise value in excess of \$1 billion.

## Beta Field:

The third quarter represents the second full quarter that the Company has owned and operated the Beta Field assets, and should provide additional transparency as to how these assets will perform under the management of the Company. The Beta Field consists of three platforms; two production platforms (Ellen and Eureka) with one processing platform (Elly) capable of supporting both platforms. Platform Eureka has been shut in since 1999 at which time it was producing nearly 4600 BOE. Currently there is only production from Platform Ellen which is averaging nearly 2000 BOE. The Company is continuing to make significant headway on its efforts to return Platform Eureka to full production in the mid 2008 timeframe. The first of these efforts was the completion of a successful "smart pig" run in August of the dry crude transport line from platform Elly to shore. This was a significant effort and represents a milestone in the return to production of Platform eureka. The smart pig run essentially proves by MMS standards the integrity of the long term viability of the San Pedro Bay Pipeline as a vehicle for transporting the crude produced from platforms Ellen and Eureka. While these efforts are ongoing, the Company continues to evaluate its shorter term options for partial return of production in the early first quarter of 2008. The Company is evaluating proposals based on technical risk, incremental barrels, and the permitting process, but in any case, is optimistic about the prospects of seeing incremental production from Platform Eureka within the next six months. In addition to the Eureka return to production efforts, the Company is also actively pursuing its infill drilling opportunities on Platform Ellen which will also add incremental production. The effort will begin with drilling rig upgrades and is expected to begin in the second half of 2008.

Management continues to be optimistic about the shareholder value that can be realized from its full exploitation of the Beta Field assets.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## **Alaska Acquisition & Assets**

The Company completed its acquisition of the Alaskan assets from Forest Oil Corporation (NYSE:FOC) on August 24<sup>th</sup>, 2007. Total consideration of the deal was approximately \$458 million consisting of \$404 million in cash, 10 million common shares, and a senior subordinated seller note with a net present value of \$29 million. Management believes that this acquisition represents significant upside for the Company for a number of reasons. The acquisition consisted of the purchase of nine producing fields (5 operated), three onshore facilities, seven platforms, and six platform drilling rigs. In addition, the Company acquired 972,640 net acres of undeveloped leasehold and a 50% interest in the Cook Inlet Pipeline. Production at the producing fields is averaging 4500 BOE/d. The non-operated producing properties are operated by Chevron with aggressive 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.

The 2008 plans for the producing assets include ramp up activities to initiate drilling both on the operated and non operated assets in the late 2008 to early 2009 timeframe. The Company plans to invest capital in the producing assets with expected incremental production realized in 2009.

With the current acreage position, the Company is one of the largest leaseholders in the Cook Inlet. Included in this leasehold are three high potential gas exploration targets offshore in the Cook Inlet. They are known as Corsair, Raptor, and Valkyrie. The Company is highly encouraged by the early data which includes 2D and 3D seismic as well as previous core sample data from the 1960's for the Corsair prospect. The Company is in serious discussions to initiate drilling of the Corsair and Valkyrie prospect in the spring of 2008. Terms of the Corsair prospect from the State of Alaska require that a well be drilled during 2008 with a second well drilled immediately if the first well is successful. Corsair is a potential 500 Bcf play in which the Company has 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 as current gas production in the region is declining, further enhancing the attractiveness of these high potential exploration targets.

The acquisition was financed primarily with 1<sup>st</sup> and 2<sup>nd</sup> lien debt financing from Goldman, Sachs, & Co and Silver Point Capital. The terms of the financing commitments are structured such that the Company will recast the capital structure within the first 6-9 months. The Company is currently in negotiations to resolve this issue which should provide an overall reduced cost of capital and a more balanced debt to equity mix. In addition, the Company closed on a \$65 million private placement in early October. \$40 million of funds went to reduce the 2<sup>nd</sup> lien borrowings with the remainder allocated for general working capital purposes. Pursuant to the terms of borrowing, the Company has also entered into a cash flow hedge program for a portion of its Alaska production (See Financial and Other Instruments below).



# MANAGEMENT'S DISCUSSION AND ANALYSIS

For purposes of analyzing the financial results of Alaskan operations, readers should note that the August data was accounted for under the Purchase Accounting rules. The result is that the month of September is the only month which represents a full month of revenue and expense for the Alaskan operations. Readers should use caution when attempting to annualize September results. In addition, it should be noted that the Company is currently undergoing the approval process with the Alaska Department of Natural Resources to become an approved operator. During this time, the Company is paying a management fee of \$667,000 to Forest Oil to remain the Operator. Management believes that there will be some savings realized once the Company takes over as operator. The Company currently expects to be approved as an operator within the December to January timeframe.

## **Wyoming Update**

On November 01, 2007, The Company announced that it had completed the testing and frac stimulation of its Pacific Paladin 15-18 well. The well was drilled to a total depth of 13,851. The well was the first obligation of a two well commitment under the Participation Agreement with Shell and Wolverine Oil and Gas. The well produced gas, condensate, and water at various zones. The company has engaged an outside firm with local knowledge and expertise in the region to analyze the results and make recommendations on the appropriate next steps. Recommendations could include remedial work and further testing to determine the commercial viability of the well. The Company is engaged in ongoing discussions with its partners on the next steps for the Paladin well in addition to the much anticipated Ranger well. The Ranger 7-21 well is still expected to spud in the mid 2008 timeframe. The Company has engaged the same outside firm to analyze the Ranger 7-21 well drill program based on the logs of the Williams Exploration Federal 1-34 well. The Ranger well is currently proposed to be drilled to a depth of 21,000 feet. The decision to consider increasing the total depth of the Ranger well was based on both recent successful regional wells in the Hilliard Formation and the Williams Exploration well Federal 1-34 which was drilled in 1978 to a depth of 25,760 feet. The Williams well is located within the current Area of Mutual Interest. Well log data for the Federal 1-34 well indicates potential gas bearing sand in Ericson, Rock Springs, Blair, Baxter Shale (Same as Hilliard), and Frontier formations. The Company estimates based on well control that more than 50% of the Area of Mutual Interest of approximately 100,000 acres is underlined by the formations described above. All activities are subject to agreement with the joint venture partners and will be reviewed based on recommendations made by all parties.

## **LA Basin & San Joaquin Redevelopment**

The Company announced in June that it had begun its drilling program at both the Wilmington Field in the Los Angeles Basin and the McDonald Anticline Field in the San Joaquin Basin. The Company is pleased to report that it has completed five wells at the Wilmington Oil Field. Four of the wells are producing an average of 67 barrels of oil per day with the fifth well still in the clean up phase but showing a steady increase in production rates. The Company has filed permits for an additional ten wells at the Wilmington field and expects to start the next five in early 2008.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

During the same period, the Company drilled two wells in its McDonald Anticline field in the San Joaquin Basin. The two wells are Mohawk Layman H-10 and Intex Layman 11. The wells are in the clean up phase and show an initial production of 20 barrels of oil per day. As these wells progress through the clean up phase the production from these wells is expected to increase. The Company has allocated funds for an additional two wells to be drilled in the first half of 2008 at this site.

## Results of Operations

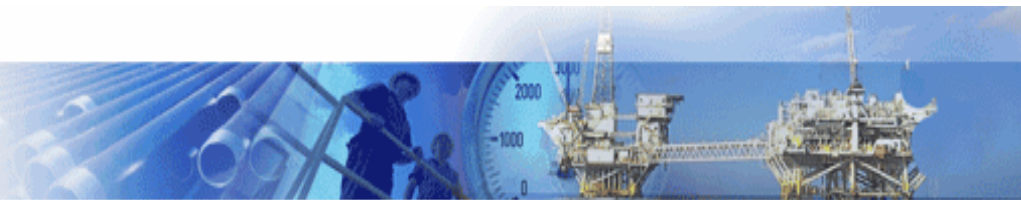
### Revenues

The revenue section of the P&L highlights both Gross Revenue and Net Revenue after royalties and other revenue. For purposes of this discussion, Management believes it is most helpful to focus on the Gross Revenue line item for analysis purposes. As such, all percent to sales numbers are depicted off of this number. On a consolidated basis, the Company's third quarter Gross Revenue increased to \$32 million which represents a 736% increase over the corresponding year ago period. 54% of the third quarter Gross Revenue was a result of Alaska operations. The Company estimates that with a full quarter of Alaska operations the Gross Revenue would be approximately \$48 million and Net Oil and Gas Revenue would be approximately \$38 million. For the nine months ended, Gross and Net Revenue was \$53 million and \$40 million respectively representing greater than 390% increases from the year ago period. This increase is directly attributable to the transformational impact of both the Beta and Alaska purchases on the Company.

### Expenses

Production expenses were up nearly 1600% from the year ago period at \$20 million, however, as a percent to sales, the third quarter consolidated production expense was 63% of Gross Revenue versus 32% from the year ago period. The direct increase in costs is the result of the Beta and Alaska operations. Management believes the increase costs as a percentage of Gross Revenue is a result of operating offshore platforms as well as a result of expenses associated with taking over operations of assets that were non core to their previous owners and operators. The Company purchased both the Beta and Alaska assets with the intent of aggressively converting PUD and probable reserves to PDP thus increasing free cash flow. For both assets groups, there is platform maintenance work that has been ongoing that results in a near term increase in lease operating expenses. These activities are necessary to prepare the platforms for the upcoming drilling programs. Management believes that these costs will aggressively trend down on a per barrel cost as incremental production begins flowing in 2008.

General and Administrative expenses increased by 10% from the year ago period and are down significantly on a percent to sales basis versus the same period last year. This is the result of limited incremental headcount despite two large acquisitions. Management expects that there will be some additional headcount requirements which will drive the expenses up a few points. The Company has not yet taken on any headcount for the Alaska operations, but is reimbursing Forest Oil for these costs as well as an additional management fee per an Intercompany Services Agreement. The Company has outlined additional headcount that



# MANAGEMENT'S DISCUSSION AND ANALYSIS

will be required to execute on its redevelopment and exploration activity and is actively recruiting for these positions. Despite the increased headcount, Management believes that the management fee currently being paid to Forest Oil Corporation will be enough to offset any incremental costs incurred as a result of new Alaskan hires. As a result, Management expects the G&A expense to be primarily absorbed by the removal of the management fee.

The interest expense has increased significantly for the Company as a result of its Alaska acquisition. The Company is currently in serious discussions to restructure its current debt burden to longer terms and lower cost of capital.

The Company's total asset base increased by 339% to nearly \$690 million from the 2006 year end period. The current portion doubled to nearly \$47 million and the long term increased by 370% to \$644 million over the same period. All of these increases are the result of rolling in the Alaska and Beta assets. As previously discussed, the Company believes that significant shareholder value can be realized from both the lower risk Platform Eureka return to production activities as well as the higher risk Alaskan redevelopment and exploration prospects. In addition to substantially increasing the asset base of the Company, Management believes the Alaska acquisition provides greater diversity among its asset base thereby reducing the upside risk of being tied to a smaller set of assets.

The Company's cash balances for the 09/30/2007 period decreased by 49% from the 2006 year end period. The Company's cash balance as of 11/12/2007 was approximately \$29.7 million. The change is the direct result of the use of proceeds from the Company's most recent private placement closed in October. As mentioned above, the Company is currently in serious negotiations to reorganize its current debt structure. Management believes that a part of this reorganization will include excess cash sufficient to fund its 2008 operating and capital budgets.

## Q3 Production Detail

	Alaska	Beta Unit	LA Basin	San Joaquin	Total
Oil Production (Barrels)	231,889	138,860	52,006	28,904	451,659
Realized Price/ Barrel	73.51	64.94	66.64	75.24	70.20
Oil Revenue	\$17,046,553	\$9,018,191	\$3,465,722	\$2,174,854	\$31,705,320
Gas Revenue			\$124,082		\$124,082
Total Gross Revenue	\$17,046,553	\$9,018,191	\$3,589,804	\$2,174,854	\$31,829,402
% of Business Contribution \$'s	53.6%	28.3%	11.3%	6.8%	100.0%
LOE/ Barrel	51.95	48.57	12.55	25.49	44.68

The net loss widened for the 3<sup>rd</sup> quarter to \$20.3 million. This represents a \$(0.14) per basic share loss. Management does not expect to be earnings positive until the early 2009 timeframe but expects to be strongly EBITDA positive throughout 2008.

## Other Opportunities

The Company continues to actively evaluate and pursue potential producing reserve acquisitions in its strategic areas of operation.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Capital Resources and Liquidity

Under the present environment in the energy industry and the strong prices for oil and gas, the Company is in an excellent 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. The Company expects to continue acquisitions of desirable oil and gas properties and hence may need additional capital.

## New Debt

The Company incurred a substantial amount of debt as a result of its acquisition of the Alaskan assets from Forest Oil Corporation. The following table illustrates the total company debt stated at face value and also reconciled to the stated amounts on the Company's balance sheet. When warrants are issued as a result of a debt financing, The Company is required to discount the debt by the fair value of the warrants issued with the debt. The resulting number is classified as debt on the balance sheet.

Corporate Debt Overview				
Description	12/31/2006	3/31/2007	6/30/2007	9/30/2007
Goldman Sachs (Beta Sr Secured)	28,145,953	65,000,000	65,000,000	65,000,000
Alaska 1st Lien	-	-	-	108,000,000
Alaska 2nd Lien*	-	-	-	317,000,000
Laurus Note (Carneros)	20,770,419	20,770,419	20,643,852	20,643,852
Face value of notes payable	48,916,372	85,770,419	85,643,852	510,643,852
Production Loans - Aera Energy	-	5,653,140	5,799,243	5,949,122
Forest zero coupon note	-	-	-	29,250,000
<b>Total face value of debt</b>	<b>48,916,372</b>	<b>91,423,559</b>	<b>91,443,095</b>	<b>545,842,974</b>
Unamortized Transaction Costs	-	-	(8,163,189)	(33,350,830)
Current Portion of LT Debt	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)
Accrued Interest	-	-	-	2,391,251
Note discounted - Goldman	(2,851,824)	(9,924,471)	(9,211,611)	(8,498,751)
Note discounted - Laurus	(7,108,772)	(6,397,895)	(5,687,018)	(4,976,141)
<b>Balance Sheet LT Debt</b>	<b>37,455,777</b>	<b>73,601,193</b>	<b>66,881,277</b>	<b>499,908,504</b>

\*As part of the use of proceeds for the private placement closed in October, \$40 million of the 2<sup>nd</sup> lien Alaska debt was paid off. The current debt (as of 11/12/07) associated with the 2<sup>nd</sup> Lien for Pacific Energy Alaska is approximately \$277 million.

## Warrants Exercised

The Company had 153,000 warrants exercised during the 3<sup>rd</sup> quarter.

## Cash & Cash Equivalents

As of September 30, 2007, the Company had a cash balance of \$7.7 million.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

Approximately 95% of the cash position is held in a lockbox account to be used for the detailed and aggressive redevelopment projects. The movement of this cash from restricted to unrestricted accounts is approved in conjunction with the Company's lenders.

During the month of October, the Company closed a \$65 million private placement. The use of proceeds were for debt repayment and general working capital. As such the cash balance as of 11/12/07 was \$29.7 million.

## 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

Transactions with related parties are measured at their fair value as determined by management. The balances referred to below are non-interest bearing, unsecured and due on demand. As of September 30, 2007 the Company owed \$54,260 to various related parties for amounts incurred by the Company on behalf of the related parties. During the first nine months of 2007, the Company incurred legal costs of approximately \$247,800 with a company owned and operated by a Director of the Company. During the first nine months of 2007, the Company paid approximately \$152,000 to an entity owned by an employee for an overriding royalty on its Wilmington property.

## Changes in Accounting Policy

Pursuant to Section 3865 (FAS 133 US GAAP), the Company has designated the oil commodity hedges adopted during the 3<sup>rd</sup> 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 is 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 the Company have been designated as fair value hedges. Changes in the fair value associated with these hedges is immediately recorded to earnings. There is no change to how these contracts have been previously recorded.

## Financial and Other Instruments

The discussion in this section provides information about financial instruments the Company uses to manage commodity price and interest rate volatility. To the extent the Company borrows amounts under its credit facilities, it is subject to interest rate risk because such amounts bear interest at variable rates. Given the current low variable rate under the London Interbank Rate (the Company's current borrowing base under its Alaska debt



# MANAGEMENT'S DISCUSSION AND ANALYSIS

facilities), the Company is considering the use of interest hedges to protect against a rise in variable rate interest. The Company has not yet entered into any interest hedging contracts.

The schedule below represents the hedge contracts (swaps) that were entered into during the 3<sup>rd</sup> quarter. As mentioned above, these derivative contracts have been designated as cash flow hedges.

Alaska Oil Price Hedge Details				Beta Oil Price Hedge Details			
Year	Monthly Volume (Barrels)		Price per Barrel (\$US)	Year	Monthly Volume (Barrels)		Price per Barrel (\$US)
	Begin	End			Begin	End	
2007	96,389	94,045	69.75	2007	26,259	25,908	53.50
2008	92,899	81,482	68.16	2008	25,659	23,087	53.50
2009	80,536	71,029	67.21	2009	22,868	20,590	53.50
2010	70,235	41,255	67.21	2010	20,394	18,373	53.50
2011	38,399	15,578	67.21	2011	18,200	16,407	53.50
2012	15,410	14,090	67.21	2012	16,254	15,363	53.50

Due to the historical volatility of crude oil and natural gas prices, as well as credit agreement requirements, the Company has an ongoing hedging strategy aimed at reducing the variability of the prices it receives on its production and providing a calculable minimum cash flow. Currently, the Company has entered into production swaps aimed at ensuring a minimum cash flow sufficient to cover its existing debt burden. As the Company layers on incremental production, it will review the effectiveness of its commodity risk management strategies. The above schedules represent the most material hedging agreements currently in place. The Company does have some legacy contracts for its LA basin production. The hedged volumes under those contracts are not material for discussion or presentation.

## Outstanding Share Data

The Company has issued additional shares during the third quarter of 2007. The use of the shares is outlined in the table below. The Company was required under a previous private placement to register shares with the US Securities & Exchange Commission. Due to the timing of the Alaska acquisition, Management believed that it was in the best interest of the Company to wait to file its US S-1 Registration statement. As such, it may incur damages payable in shares. The potential worst case dilution from damages shares is shown in the table below for the quarter ended.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Corporate Common Share Capitalization Table

	30-Jun	30-Sep	Delta
Total Shares Outstanding (1)	141,176,992	156,079,992	14,903,000
Aggregate potential Damages Shares	0	7,429,000	7,429,000
Total Shares Underlying Warrants (2)	74,257,845	74,104,845	-153,000
Stock Options (3)	11,850,000	11,850,000	0
			Alaska Lender Fees Potential shares due to late share registration Exercised during the period No new options issued during the period
<b>Potential Fully Diluted Stock Count</b>	<b>227,284,837</b>	<b>249,463,837</b>	<b>22,179,000</b>

- (1) 3500 warrants were exercised on June 28, 2007. The previous Notes to the 06/30 financials included those shares as warrants outstanding.
- (2) The schedule shows an updated number of warrants for the 06/30 timeframe. The previous 06/30 Notes withheld certain warrants that had a degree of uncertainty of being issued. The warrants were in fact issued during that time.
- (3) 100,000 options were issued to an employee who is no longer with the Company. The Company is still determining if the options were fully vested during the employees time of employment.

## Selected Quarterly Information

The following table shows revenue and income data for the most recent eight quarters:

Selected Quarterly Information				
	Q4 2006	Q1 2007	Q2 2007	Q3 2007
Total Revenues	3,269,706	6,845,039	7,751,839	31,829,402
Net Income (loss)	-10,498,572	-6,452,102	-12,291,683	-20,308,805
	Q4 2005	Q1 2006	Q2 2006	Q3 2006
Total Revenues	2,235,163	2,056,166	2,333,949	3,803,049
Net Income (loss)	-2,408,282	-133,266	-492,180	-899,723

## Subsequent Events

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

## 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. The Company attempts to reduce these risks through the combination of experienced personnel with local knowledge and careful evaluation. Commodity price fluctuations can pose a risk to the Company, and management monitors this on an ongoing basis. External factors beyond the Company's control may affect the marketability of the oil and gas produced. The



# MANAGEMENT'S DISCUSSION AND ANALYSIS

Company has selected appropriate personnel to monitor field operations and has 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 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 of its current properties; as such it has control over the quality of work and performance.

The Company anticipates making substantial capital expenditures in the future for exploration, development, 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. In addition, the Company has significant commitments and contingencies that may impact its ability to grow in the future.

## Future Prospects

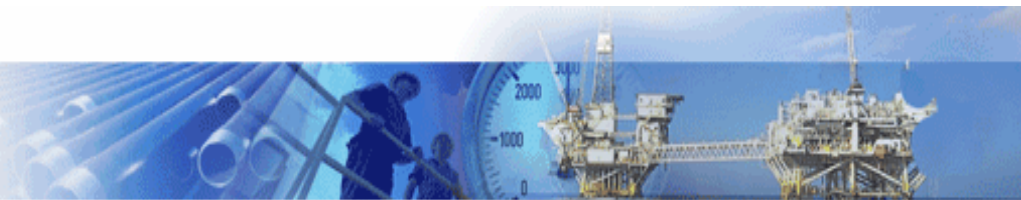
Management is optimistic about the growth potential of the Company. The Company has a large number of proven undeveloped locations in inventory to be drilled as well as significant exploration potential in Wyoming and Alaska. The prospect of returning Platform Eureka to production should add substantial growth in proved reserves and production in 2008 and beyond. Although there are some mechanical and operational challenges inherent in areas

of its operations, with proper risk management and careful evaluation, Management believes that the Company can achieve significant shareholder return.

The Company is in the final stages of preparing a US Registration Statement with the US Securities and Exchange Commission. Once effective the registration of shares will allow the removal of the PFE.S designation on the Toronto Stock Exchange as well as provide enhanced equity opportunities for dual listing between the Toronto Stock Exchange and a US stock exchange. Management believes it will be in a position to file its registration statement in the early January timeframe.

## Internal Disclosure Controls

The Company places considerable diligence on the appropriate capture and reporting of financial information. It further recognizes the need for timeliness with respect to



## MANAGEMENT'S DISCUSSION AND ANALYSIS

management reporting to the appropriate internal personnel including the Chief Executive Officer and the Chief Financial Officer among others, but it also recognizes the importance

of effectively communicating relevant information to the investor community. With this in mind, the Company has 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, Management believes it has designed a system appropriate for the current level of complexity it is managing. While it believes that the current internal disclosure controls are adequate, Management continues to focus considerable attention to further strengthening the segregation of duties along with the overall framework of internal control over financial reporting.

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

