

**PACIFIC ENERGY RESOURCES LTD.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

**PACIFIC ENERGY RESOURCES LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
for the fiscal quarter ended September 30, 2008**

**UNAUDITED INTERIM FINANCIAL STATEMENTS**

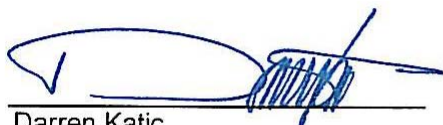
In accordance with National Instrument 51-102 released by the Canada Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended September 30, 2008.

**NOTICE TO THE READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying financial statements of Pacific Energy Resources Ltd. and the accompanying interim consolidated balance sheet as at September 30, 2008 and the interim consolidated statements of operations, accumulated deficit and other comprehensive loss and cash flows for the nine months period ended are the responsibility of the Company's management.

These consolidated financial statements have not been reviewed on behalf of the stockholders by the independent external auditors of the Company, Meyers Norris Penny LLP.

The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles.



Darren Katic  
President



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Gerry Tywoniuk  
Sr. VP & Chief Financial Officer

Date: November 14, 2008

**PACIFIC ENERGY RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(STATED IN US DOLLARS AND THOUSANDS)

**ASSETS**

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>(Unaudited)</b>	<b>(Restated) (Note 12)</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 6,746	\$ 7,245
Restricted cash	2,087	1,302
Accounts receivable	8,534	13,353
Other receivables	303	1,411
Inventory	10,252	8,556
Assets held for sale	-	46,318
Prepays and other current assets	7,157	7,387
Total current assets	<u>35,079</u>	<u>85,572</u>
<b>LONG-TERM ASSETS</b>		
Performance bonds and deposits	4,703	4,946
Investments - abandonment	99,539	94,483
Equity investment	12,805	13,626
Petroleum and natural gas properties and equipment	508,675	493,244
Total long-term assets	<u>625,722</u>	<u>606,299</u>
 Total assets	 <u>\$ 660,801</u>	 <u>\$ 691,871</u>

**PACIFIC ENERGY RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(STATED IN US DOLLARS AND THOUSANDS)  
(Continued)

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
	<b>(Unaudited)</b>	<b>(Restated) (Note 12)</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 43,784	\$ 32,808
Accrued interest	5,375	4,148
Due to related parties	76	61
Notes payable, current portion	432,019	-
Derivative liability, current portion	105,550	34,247
Liabilities held for sale	-	18,957
Other liabilities	6,787	-
Total current liabilities	<u>593,591</u>	<u>90,221</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	32,303	433,871
Asset retirement obligation	59,629	56,306
Derivative liability, net of current portion	-	55,251
Other liabilities	-	5,957
Total long-term liabilities	<u>91,932</u>	<u>551,385</u>
Non-controlling interests related to net assets held for sale	-	7,755
Economic dependence (NOTE 1)		
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Share capital	21	19
Subscriptions and subscriptions receipts	-	9,308
Contributed surplus	10,220	5,452
Warrants	24,117	24,117
Additional paid in capital	239,876	207,429
Accumulated other comprehensive loss	(105,550)	(82,716)
Deficit	(193,406)	(121,099)
Total shareholders' equity (deficit)	<u>(24,722)</u>	<u>42,510</u>
Total liabilities and shareholders' equity	<u>\$ 660,801</u>	<u>\$ 691,871</u>

**PACIFIC ENERGY RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATION**  
(STATED IN US DOLLARS AND THOUSANDS  
EXCEPT PER SHARE AMOUNTS)  
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>REVENUES</b>				
Oil and gas production revenue	\$ 67,340	\$ 26,064	\$ 189,765	\$ 39,007
Royalties	(16,824)	(2,583)	(42,407)	(5,782)
Realized gain (loss) on derivatives	(16,105)	(905)	(44,686)	(905)
Interest and dividends	1,142	2,145	4,798	2,859
Loss from nonconsolidated subsidiary	(373)	-	(821)	-
Other revenue	57	(404)	113	90
	<u>35,237</u>	<u>24,317</u>	<u>106,762</u>	<u>35,269</u>
<b>EXPENSES</b>				
Production	21,350	18,608	70,322	28,703
Transportation	1,130	15	3,300	15
General and administrative	2,553	2,091	9,407	4,159
Stock compensation	1,564	1,669	4,767	2,295
Liquidated damages	840	-	4,080	-
Interest - cash	17,746	3,281	56,185	7,783
Interest - non-cash	7,233	1,583	26,710	3,454
Accelerated expensing of accretion and amortization of deferred financing costs	-	-	48,398	-
General exploration	701	32	1,691	32
Depreciation, depletion and amortization	6,959	15,903	20,389	22,643
	<u>60,076</u>	<u>43,182</u>	<u>245,249</u>	<u>69,084</u>
<b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX</b>				
	(24,839)	(18,865)	(138,487)	(33,815)
Income tax expense	-	-	-	(35)
	<u>(24,839)</u>	<u>(18,865)</u>	<u>(138,487)</u>	<u>(33,850)</u>
<b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</b>				
	(24,839)	(18,865)	(138,487)	(33,850)
Income (loss) from discontinued operations, net of tax	(383)	(1,445)	(8,260)	(5,198)
Gain from sale of discontinued operations, net of tax	74,441	-	74,441	-
	<u>74,441</u>	<u>-</u>	<u>74,441</u>	<u>-</u>
<b>NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX</b>				
	74,058	(1,445)	66,181	(5,198)
<b>NET INCOME (LOSS)</b>				
	<u>\$ 49,219</u>	<u>\$ (20,310)</u>	<u>\$ (72,306)</u>	<u>\$ (39,048)</u>
<b>Basic and diluted income (loss) per share from continuing operations</b>				
	\$ (0.12)	\$ (0.13)	\$ (0.68)	\$ (0.24)
<b>Basic and diluted income (loss) per share from discontinued operations</b>				
	<u>0.36</u>	<u>(0.01)</u>	<u>0.33</u>	<u>(0.03)</u>
<b>Basic and diluted income (loss) per share</b>				
	<u>\$ 0.24</u>	<u>\$ (0.14)</u>	<u>\$ (0.35)</u>	<u>\$ (0.27)</u>

**PACIFIC ENERGY RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICIT,**  
**COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE LOSS**  
(STATED IN US DOLLARS AND THOUSANDS)  
(Unaudited)

	<u>For the Three Months Ended</u> <u>September 30,</u>		<u>For the Nine Months Ended</u> <u>September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>CONSOLIDATED STATEMENT OF ACCUMULATED DEFICIT</u>				
ACCUMULATED DEFICIT, BEGINNING OF PERIOD	\$ (242,625)	\$ (41,088)	\$ (121,100)	\$ (22,350)
Net income (loss)	<u>49,219</u>	<u>(20,310)</u>	<u>(72,306)</u>	<u>(39,048)</u>
ACCUMULATED DEFICIT, END OF PERIOD	<u>\$ (193,406)</u>	<u>\$ (61,398)</u>	<u>\$ (193,406)</u>	<u>\$ (61,398)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

NET INCOME (LOSS)	\$ 49,219	\$ (20,310)	\$ (72,306)	\$ (39,048)
Other comprehensive income (loss), being unrealized hedging gains (losses)	<u>134,947</u>	<u>(21,964)</u>	<u>(22,834)</u>	<u>(21,964)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 184,166</u>	<u>\$ (42,274)</u>	<u>\$ (95,140)</u>	<u>\$ (61,012)</u>

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE LOSS

ACCUMULATED OTHER COMPREHENSIVE LOSS, BEGINNING OF PERIOD	\$ (240,497)	\$ -	\$ (82,716)	\$ -
Unrealized hedging gains (losses)	<u>134,947</u>	<u>(21,964)</u>	<u>(22,834)</u>	<u>(21,964)</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF PERIOD	<u>\$ (105,550)</u>	<u>\$ (21,964)</u>	<u>\$ (105,550)</u>	<u>\$ (21,964)</u>

**PACIFIC ENERGY RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(STATED IN US DOLLARS AND THOUSANDS)  
**(Unaudited)**

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss from continuing operations	\$ (24,839)	\$ (18,865)	\$ (138,487)	\$ (33,850)
Adjustments to reconcile net loss to net cash from operating activities:				
Depreciation, depletion and amortization	6,959	15,903	20,389	22,643
Accelerating expensing of discounts and loan costs	-	-	48,398	-
Accretion of discounts, amortization of deferred financing costs and interest paid in kind	7,233	1,583	26,710	3,454
Deferred income taxes	-	25	-	25
Non cash interest and dividend income	(1,546)	6,865	(4,813)	6,444
Stock compensation expense	1,564	1,669	4,767	2,295
Liquidated damages	840	-	4,080	-
Loss from unconsolidated subsidiary	373	-	821	-
Changes in operating assets and liabilities:				
Restricted cash	(2,094)	9,821	(921)	-
Receivables	17,307	(4,551)	5,851	(6,603)
Inventory	(3,420)	-	(1,696)	-
Prepaid expenses and other current assets	(6,505)	10,062	(3,816)	8,676
Accounts payable and accrued liabilities	(17,278)	(315)	12,146	1,743
Other liabilities	1,130	(634)	1,130	(946)
Due to related parties	-	32	15	48
Payments on asset retirement obligations	-	-	(269)	(361)
Net Cash Provided by (Used In) Operating Activities from Continuing Operations	(20,276)	21,595	(25,695)	3,568
Net Cash Provided by (Used In) From Discontinued Operations	3,010	(25,797)	11,454	(23,472)
Net Cash Provided by (Used In) Operating Activities	(17,266)	(4,202)	(14,241)	(19,904)

**PACIFIC ENERGY RESOURCES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(STATED IN US DOLLARS AND THOUSANDS)  
(Unaudited)  
(Continued)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Petroleum and natural gas property expenditures	(10,962)	(9,513)	(32,337)	(28,208)
Cash paid for restricted and short-term investments	-	(679)	-	(1,808)
Net Cash Provided by (Used In) Investing Activities From Continuing Operations	(10,962)	(10,192)	(32,337)	(30,016)
Proceeds on sale of assets	127,693	-	127,693	-
Cash paid to non-controlling interest	(6,387)	-	(6,387)	-
Cash paid to terminate hedging	(29,678)	-	(29,678)	-
Petroleum and natural gas property expenditures	-	-	(50)	-
Net Cash Provided by (Used In) Investing Activities From Discontinued Operations	91,628	-	91,578	-
Net Cash Provided by (Used In) Investing Activities	80,666	(10,192)	59,241	(30,016)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Cash received for common shares issued	-	528	19,129	2,099
Cash received for notes payable issued	-	15,689	1,000	40,028
Payments on notes payable	(44,972)	-	(44,972)	-
Net Cash Provided By (Used In) Financing Activities From Continuing Operations	(44,972)	16,217	(24,843)	42,127
Net Cash Provided by (Used In) Financing Activities Used In Discontinued Operations	(18,037)	-	(20,656)	(127)
Net Cash Provided by (Used In) Financing Activities	(63,009)	16,217	(45,499)	42,000
<b>NET CHANGE IN CASH</b>	391	1,823	(499)	(7,920)
<b>CASH, BEGINNING OF PERIOD</b>	6,355	5,257	7,245	15,000
<b>CASH, END OF PERIOD</b>	\$ 6,746	\$ 7,080	\$ 6,746	\$ 7,080

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

*(All amounts in thousands unless otherwise specified)*

**1. BASIS OF PRESENTATION**

The unaudited interim Consolidated Financial Statements include the accounts of Pacific Energy Resources Ltd. and its subsidiaries (“PER” or “the Company”), and are presented in accordance with Canadian generally accepted accounting principles. PER's operations are in the business of exploration for and development of crude oil and natural gas in Alaska and California.

The unaudited interim Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the annual audited Consolidated Financial Statements for the year ended December 31, 2007, except as noted below. The disclosures provided below are incremental to those included with the annual audited Consolidated Financial Statements. The interim Consolidated Financial Statements should be read in conjunction with the annual audited Consolidated Financial Statements and the notes thereto for the year ended December 31, 2007.

The Company has adjusted the December 31, 2007 audited financial statements and unaudited results of operations for the period ended September 30, 2007 to segregate the assets, liabilities, revenues and expenses of discontinued operations.

The Company has adjusted the unaudited results of operations for the period ended September 30, 2007 for comparative purposes to segregate interest expense between cash and non-cash interest expense.

***Economic Dependence***

The Company's primary sources of borrowings are pursuant to three credit agreements with affiliates of The Goldman Sachs Group, Inc. (“Goldman”) and Silver Point Finance LLC (“Silver Point”). These affiliates are also significant owners of common shares and warrants. An affiliate of The Goldman Sachs Group, Inc. is the counterparty for the Company's commodity swaps. The credit and swap agreements contain covenants and restrictions, including a requirement that all cash receipts are to be deposited into lockboxes and require the Company to obtain Goldman or Silver Point approval for the disbursement of funds out of the lockboxes.

As at September 30, 2008 and as of the date of these financial statements, the Company was not in compliance with all covenants under these agreements, and accordingly all amounts due under the credit agreements and the derivative liability associated with the swap agreement have been classified as current liabilities as of September 30, 2008, in accordance with accounting requirements. However, neither Goldman nor Silver Point has expressed any demand for repayment of amounts outstanding under the credits agreements nor expressed any demands under the swap agreements. Negotiations for amendment of the agreements are underway.

The Company's ability to continue operations as planned, including capital spending on the schedule desired, is dependent upon a successful amendment of these agreements with Goldman and Silver Point, however no assurance can be given that the negotiation for amendment of the agreements will be completed on terms satisfactory to the Company. These financial statements have been prepared on the basis of a successful negotiation of amendments with the lenders. These financial statements do not include potentially material adjustments that might be necessary if management's plans are not successful.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

*(All amounts in thousands unless otherwise specified)*

**2. CHANGES IN ACCOUNTING POLICIES AND PRACTICES**

As disclosed in the December 31, 2007 annual audited Consolidated Financial Statements, on January 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

- "Inventories", Section 3031. The new standard replaces the previous inventories standard and requires inventory to be valued on a first-in, first-out or weighted average basis, which is consistent with PER's former accounting policy. The new standard allows the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The adoption of this standard had no impact on PER's Consolidated Financial Statements.
- "Financial Instruments – Presentation", Section 3863 and "Financial Instruments – Disclosures", Section 3862. The new disclosure standard increases PER's disclosure regarding the nature and extent of the risks associated with financial instruments and how those risks are managed (See Note 10). The new presentation standard carries forward the former presentation requirements.
- "Capital Disclosures", Section 1535. The new standard requires PER to disclose its objectives, policies and processes for managing its capital structure (See Note 11).

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

*(All amounts in thousands unless otherwise specified)*

**3. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT**

The asset categories of petroleum and natural gas properties and equipment at September 30, 2008 and December 31, 2007 were as follows:

	<b>September 30, 2008</b>		
	<b>Cost</b>	<b>Accumulated depletion, depreciation and accretion</b>	<b>Net Book Value</b>
Petroleum and natural gas properties and facilities	\$ 531,108	\$ 28,141	\$ 502,967
Equipment and other	6,486	778	5,708
	<b>\$ 537,594</b>	<b>\$ 28,919</b>	<b>\$ 508,675</b>
	<b>December 31, 2007</b>		
	<b>Cost</b>	<b>Accumulated depletion, depreciation and accretion</b>	<b>Net Book Value</b>
Petroleum and natural gas properties and facilities	\$ 500,366	\$ 11,455	\$ 488,911
Equipment and other	4,591	258	4,333
	<b>\$ 504,957</b>	<b>\$ 11,713</b>	<b>\$ 493,244</b>

Included in petroleum and natural gas properties and facilities at September 30, 2008 and December 31, 2007 are undeveloped properties and work in progress of \$25,452 and \$14,618 respectively, which are not subject to depletion and depreciation.

The detail above excludes discontinued operations at December 31, 2007, which operations were sold in July 2008.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

*(All amounts in thousands unless otherwise specified)*

**4. RELATED PARTY TRANSACTIONS**

Transactions with related parties are recorded at a price at which would be the same as the price of those transactions entered into with non-related parties.

- a) In April 2008, the Company received a \$1.0 million unsecured loan from a shareholder. The loan bears interest at 9% and is due on demand.
- b) As of September 30, 2008 and September 30, 2007, the Company owed \$75.8 thousand and \$54.3 thousand respectively, to a related party for amounts incurred by the related party on the Company's behalf. These amounts are non-interest bearing and due on normal trade terms.
- c) During the first nine months of 2007, the Company incurred legal costs of approximately \$247.8 thousand with a company owned, until October 31, 2007, by one of the Company's directors. A balance of approximately \$44.3 thousand was owed at September 30, 2007.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

*(All amounts in thousands unless otherwise specified)*

**5. NOTES PAYABLE**

<b>Description</b>	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Notes Payable to Goldman Sachs and Silver Point		
Beta senior secured	\$ 20,028	\$ 65,000
Alaska first lien	108,000	108,000
Alaska second lien	302,991	285,269
Face value of notes payable to Goldman Sachs and Silver Point	431,019	458,269
Forest zero coupon note payable	32,303	29,976
Unsecured shareholder loan	1,000	-
Total face value of notes payable	464,322	488,245
Unamortized discounts	-	(27,097)
Unamortized debt issue costs	-	(27,277)
Book value of notes payable	464,322	433,871
Current portion of notes payable	(432,019)	-
Long-term portion of notes payable	\$ 32,303	\$ 433,871

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

*(All amounts in thousands unless otherwise specified)*

**5. NOTES PAYABLE (Continued)**

The 2007 and 2008 activity of notes payable was as follows:

	<b>Notes Payable</b>	
	<b>Face Value</b>	<b>Carrying Value</b>
Balance at December 31, 2006	\$ 48,916	\$ 30,865
Proceeds	491,104	459,286
Payments	(40,114)	(40,114)
Less deferred financing costs	-	(29,235)
Accretion of discounts, amortization of deferred financing costs and interest paid in kind	8,995	28,794
Balance at December 31, 2007	508,901	449,596
Proceeds	1,000	1,000
Payments	(2,619)	(2,619)
Accretion of discounts, amortization of deferred financing costs and interest paid in kind	20,049	30,956
Accelerated expensing of discounts and loan costs	-	48,398
Payments from sale of assets	(63,009)	(63,009)
Balance at September 30, 2008	<u>\$ 464,322</u>	<u>\$ 464,322</u>

In the first quarter of 2008, unamortized discount and deferred financing costs related to the Goldman and Silver Point notes payable were written off in the amount of \$48.4 million, as a result of classifying the entire note balance in current liabilities, in order to bring the carrying value up to face value.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

*(All amounts in thousands unless otherwise specified)*

**6. ASSET RETIREMENT OBLIGATIONS**

The following table summarizes the changes in the Company's abandonment obligations during 2007 and 2008:

	<u>Asset Retirement Obligation</u>	<u>Asset Retirement Receivable</u>	<u>Net Amount</u>
Balance at December 31, 2006	\$ 1,655	\$ 585	\$ 1,070
Acquisitions	53,453	-	53,453
Retirements	(142)	-	(142)
Additions	-	-	-
Accretion	3,059	45	3,014
Balance at December 31, 2007	<u>58,025</u>	<u>630</u>	<u>57,395</u>
Acquisitions	-	-	-
Retirements	(269)	-	(269)
Additions	-	-	-
Accretion	3,333	24	3,309
Sale of assets	(1,460)	(654)	(806)
Balance at September 30, 2008	<u>\$ 59,629</u>	<u>\$ -</u>	<u>\$ 59,629</u>

**7. INCOME TAXES**

The provision for income taxes is as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current	\$ -	\$ (25)	\$ -	\$ 10
Future tax	-	25	-	25
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35</u>

## 8. SHAREHOLDERS' EQUITY

	Number of Shares	Number of Warrants	Share Capital	Subscriptions	Contributed Surplus	Warrants	Additional Paid In Capital	Accumulated Other Comprehensive		Total
								Loss	Deficit	
Balance at December 31, 2007	186,642	101,640	\$ -	\$ 9,308	\$ 5,453	\$ 24,117	\$ 207,430	\$ (82,716)	\$ (121,100)	\$ 42,512
Net loss	-	-	-	-	-	-	-	-	(72,306)	(72,306)
Unrealized hedging losses	-	-	-	-	-	-	-	(22,834)	-	(22,834)
Warrants issued	-	662	-	-	-	-	-	-	-	-
Warrants exercised	1	(12,181)	-	-	-	-	19,948	-	-	19,948
Shares issued for debt issue costs	2,063	-	-	(4,882)	-	-	4,882	-	-	-
Shares issued for liquidated damages	4,592	-	-	(4,426)	-	-	4,080	-	-	(346)
Stock compensation	-	-	-	-	4,767	-	-	-	-	4,767
Common stock issued	12,171	-	-	-	-	-	3,536	-	-	3,537
Balance at September 30, 2008	205,469	90,121	\$ -	\$ -	\$ 10,220	\$ 24,117	\$ 239,876	\$ (105,550)	\$ (193,406)	\$ (24,722)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2008**

*(All amounts in thousands unless otherwise specified)*

**8. SHAREHOLDERS' EQUITY (continued)**

***Liquidated Damages***

As part of the private placement that closed in January 2007, certain registration rights were granted along with the shares. These registration rights obligated the Company to file a Form S-1 Registration Statement with the SEC by the end of August 2007. Because this deadline was not met, we became obligated to issue liquidated damages shares under the agreement payable in the amount of 1% per month of the total shares issued, to shareholders who had not sold before the statement was filed. The Liquidated Damages expense represents the fair value of the underlying shares that the Company issued. The amount ceased once 10% of the total shares issued in January 2007 is reached.

***Stock Options***

PER has a stock-based compensation plan that grants employees options to purchase common shares of the Company. Option exercise prices are the market price for the common shares on the date the options were issued. Options granted under the plan have varying vesting schedules, but are generally fully exercisable after three years and expire five years after the date granted.

The following tables summarize the information about options to purchase common shares from December 31, 2007 through September 30, 2008:

	<b>Number of Options (in thousands)</b>	<b>Weighted Average Exercise Price per Share (Canadian dollars)</b>
Outstanding, beginning of period	12,002	\$ 2.06
Granted during the period	6,992	\$ 1.45
Forfeited during the period	(878)	\$ 1.99
Outstanding, end of period	<u>18,116</u>	<u>\$ 1.96</u>
Exercisable, end of period	<u>7,469</u>	<u>\$ 1.69</u>

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**9. PER SHARE AMOUNTS**

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the periods. Diluted per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase common shares were exercised and converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby an proceeds from the exercise of stock options or warrants plus unamortized stock-based compensation that are in the money assume to be used to purchase common shares of the Company at average market price during the period. Basic and diluted weighted average outstanding shares are the same as the Company has net losses.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Weighted Average Outstanding Shares	205,228	147,231	203,040	142,389

**10. FINANCIAL INSTRUMENTS**

The Company holds various forms of financial instruments. The nature of these instruments and its operations expose the Company to market risk, credit risk and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Board will establish policies in setting risk limits and controls and monitor these risks in relation to market conditions.

*Market risk*

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign currency exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

*a) Commodity price risk*

Due to the volatility of commodity prices the Company is potentially exposed to adverse consequences in the event of declining prices. The Company may enter into oil and natural gas contracts in order to protect its cash flow on future sales. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil and natural gas.

Based on annualizing third quarter 2008 production levels, a \$10 per barrel change in oil prices would change revenue net of royalties (after factoring in the Company's hedge position) by approximately \$4.7 million per year.

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**10. FINANCIAL INSTRUMENTS (continued)**

As at September 30, 2008, the Company had the following contracts outstanding:

**Alaska**

<b>Type</b>	<b>Volume</b>	<b>BPD<sup>(C)</sup></b>	<b>Term</b>	<b>Price (\$/bbl)<sup>(A)</sup></b>	<b>Type</b>
Swap	247,337	2,688	October 1 - December 31, 2008	\$ 68.16	Financial
Swap	907,999	2,488	January 1 - December 31, 2009	\$ 67.21	Financial
Swap	675,422	1,850	January 1 - December 31, 2010	\$ 67.21	Financial
Swap	272,416	746	January 1 - December 31, 2011	\$ 67.21	Financial
Swap	132,812	363	January 1 - September 30, 2012	\$ 67.21	Financial

<sup>(A)</sup> Swap price based on WTI

**Beta**

<b>Type</b>	<b>Volume</b>	<b>BPD</b>	<b>Term</b>	<b>Price (\$/bbl)<sup>(B)</sup></b>	<b>Type</b>
Swap	69,931	760	October 1 - December 31, 2008	\$ 57.75	Financial
Swap	260,512	714	January 1 - December 31, 2009	\$ 57.30	Financial
Swap	232,400	637	January 1 - December 31, 2010	\$ 57.30	Financial
Swap	207,460	568	January 1 - December 31, 2011	\$ 57.10	Financial
Swap	110,633	302	January 1 - September 30, 2012	\$ 56.90	Financial

<sup>(B)</sup> Swap price based on Midway Sunset

**Total**

<b>Type</b>	<b>Volume</b>	<b>BPD</b>	<b>Term</b>	<b>Price (\$/bbl)</b>	<b>Type</b>
Swap	317,268	3,448	October 1 - December 31, 2008	\$ 65.87	Financial
Swap	1,168,511	3,202	January 1 - December 31, 2009	\$ 65.00	Financial
Swap	907,822	2,487	January 1 - December 31, 2010	\$ 64.67	Financial
Swap	479,876	1,314	January 1 - December 31, 2011	\$ 62.84	Financial
Swap	243,445	665	January 1 - September 30, 2012	\$ 62.52	Financial

<sup>(C)</sup> Barrels per day

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**10. FINANCIAL INSTRUMENTS (continued)**

*b) Foreign currency exchange risk*

All of PER's petroleum and natural gas sales and expenses and monetary assets and liabilities are denominated in United States dollars, and are not impacted by the exchange rate between the United States and foreign currency. PER common shares are traded on the Toronto Stock Exchange and the Company's ability to raise capital funds by issuance of new shares may be impacted by the foreign currency exchange rate between the Canadian dollar and the United States dollar. As of September 30, 2008 the Company did not have any commitments to issue new shares on the Toronto Stock Exchange.

*c) Interest rate risk*

The Company's credit facilities are subject to floating rates and are, therefore, exposed to fluctuations in the market rate of interest. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. The Company is required under its credit agreements to hedge against the interest rate risk associated with the floating rate debt facilities. The Company was required to enter into interest rate hedges on or before March 22, 2008. The Company has not entered into any interest rate hedges and has been in discussions with the lenders as to the appropriate strategy, timing, and amount of interest to hedge based on the anticipated amendments to the credit facilities.

A fluctuation in interest rates of 1.0% would change interest expense by \$4.0 million per year based on the outstanding floating rate debt as of September 30, 2008.

*Credit risk*

Substantially all of the accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and, therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Receivables related to the sale of the Company's petroleum and natural gas production are from major oil and gas companies who have excellent credit ratings. These revenues are normally collected by the twentieth day of the month following delivery. The Company has not experienced any credit loss in the collection of its accounts receivable.

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**10. FINANCIAL INSTRUMENTS (continued)**

Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. See Note 1 – Economic Dependence.

Fair values of financial instruments

	<u>Carrying Value</u>	<u>Fair Value</u>
<b>Financial Assets</b>		
Loans and receivables:		
Accounts receivable	\$ 8,534	\$ 8,534
Other receivables	303	303
<b>Financial Liabilities</b>		
Held-for-trading:		
Derivative liabilities	105,550	105,550
Other financial liabilities:		
Accounts payable and accrued liabilities	43,784	43,784
Notes payable	464,322	464,322 <sup>(1)</sup>

<sup>(1)</sup> The carrying value of the Company's notes payable approximates fair value because their interest rates are based on variable reference rates.

**11. CAPITAL DISCLOSURES**

The Company's Goldman and Silver Point debt balance of \$431.0 million reflects the debt portion (as of September 30, 2008) of the funding of acquisitions of the Alaska assets in August 2007 and Beta Unit in March 2007, and the funding of the first stages of a significant capital expenditure program to develop these assets to increase production. Reducing the Company's leverage ratio (ratio of debt to EBITDA) is one of the Company's key corporate goals. The first part of this reduction occurred in the third quarter of 2008, with \$45 million of the proceeds from the July 2008 asset sale used to repay a portion of this indebtedness (Note 13). Increasing production at the Beta Field is also contributing to a reduction in the leverage ratio by increasing EBITDA. Further alternatives to reduce the leverage ratio include accessing surety lines to replace the cash on deposit securing our abandonment liabilities, securing third party investors for a portion of our capital program, selling some or all of our Alaska operations and equity sales. These alternatives are under review to determine the best course of action to increase shareholder value.

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**11. CAPITAL DISCLOSURES (continued)**

As disclosed in Note 1 – Economic Dependence, the Company is currently renegotiating amendments to its credit agreements with Goldman and Silver Point, although no assurance can be given that the Company will achieve its objectives in such renegotiation.

Over time, once the Company's leverage ratio is reduced, the Company expects to refinance its then-remaining Goldman and Silver Point notes payable with a conventional reserve-based loan at a significantly lower interest rate; however, no assurance can be given that conventional financing at desirable rates will be available at such time.

**12. PRIOR PERIOD ADJUSTMENT**

The Company restated its December 31, 2007 comparative cash and restricted cash balances reported in its amended March 31, 2008 interim financial statements. The Company's credit agreements require that revenue from its Beta Unit and Alaska operations be deposited into lockboxes. Disbursements from these lockboxes require lender approval and accordingly such cash balances are restricted. The previously reported cash balance of \$8,547,000 (excluding discontinued operations) has been restated as cash of \$7,245,000 and restricted cash of \$1,302,000. Previously no restricted cash was reported.

**13. OPERATIONS HELD FOR SALE AND GAIN ON SALE**

During the quarter ended June 30, 2008, the Company entered into an agreement with a buyer whereby the Company would sell to the buyer its L.A. Basin onshore California assets and its San Joaquin onshore assets for gross proceeds of \$135 million (before customary purchase price adjustments). The sale was completed in July 2008.

The following tables present financial information related to operations held for sale until the July 2008 closing date:

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**13. OPERATIONS HELD FOR SALE AND GAIN ON SALE (continued)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>REVENUES</b>				
Oil and gas production revenue, net	\$ 747	\$ 2,819	\$ 11,190	\$ 7,334
Unrealized gain (loss) on derivatives	(805)	(1,891)	(12,121)	(6,379)
Realized gain (loss) on derivatives	(238)	(238)	(2,806)	(109)
Interest and dividends	4	24	28	76
Other revenue	1	26	5	146
	<u>(291)</u>	<u>740</u>	<u>(3,704)</u>	<u>1,068</u>
<b>EXPENSES</b>				
General and administrative	(458)	(370)	-	-
Interest - cash	82	749	790	1,768
Interest - non-cash	276	898	1,933	2,555
Depreciation, depletion and amortization	192	908	1,833	1,943
	<u>92</u>	<u>2,185</u>	<u>4,556</u>	<u>6,266</u>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>(383)</b>	<b>(1,445)</b>	<b>(8,260)</b>	<b>(5,198)</b>
Income tax expense	-	-	-	-
<b>NET INCOME (LOSS)</b>	<b>\$ (383)</b>	<b>\$ (1,445)</b>	<b>\$ (8,260)</b>	<b>\$ (5,198)</b>

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**13. OPERATIONS HELD FOR SALE AND GAIN ON SALE (continued)**

	<b>December 31, 2007</b>
<b>ASSETS</b>	
Cash	\$ 2,134
Accounts receivable	2,582
Other receivables	991
Prepays and other current assets	102
Performance bonds and deposits	646
Asset retirement receivable	630
Petroleum and natural gas properties, property and equipment	39,233
	46,318
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	1,300
Notes payable	15,725
Asset retirement obligation	1,720
Derivative liability	-
Other liabilities	212
	18,957
Non-controlling interest	7,755
	26,712
<b>NET INVESTMENT</b>	<b>\$ 19,606</b>

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**13. OPERATIONS HELD FOR SALE AND GAIN ON SALE (Continued)**

The net sales proceeds were \$127,693, being the gross sales proceeds of \$135,000 less customary purchase price adjustments of \$7,307 (being principally cash flow from the effective date to the closing date). The net sales proceeds were used as follows:

Partial repayment of Beta sr. secured credit facility	\$	44,972
Repayment of Laurus Master Fund Ltd. note payable		18,037
Termination of commodity swaps		29,678
Laurus Master Fund Ltd. share of proceeds		6,387
Payment of closing costs		1,222
Addition to working capital		27,397
Total use of net sales proceeds	<u>\$</u>	<u>127,693</u>

The gain on sale was calculated as follows:

Net proceeds	\$	127,693
Net book value of net assets sold		(38,590)
Costs of sale		(4,127)
Realization of accumulated other comprehensive loss on hedge termination		(10,535)
Gains on sale of discontinued operations		74,441
Provision for income tax		-
Gains on sale of discontinued operations - net of tax	<u>\$</u>	<u>74,441</u>