

CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal quarter ended March 31, 2008

Pacific Energy Resources LTD

PACIFIC ENERGY RESOURCES LTD.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 2008**



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CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal quarter ended March 31, 2008

Pacific Energy Resources LTD

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

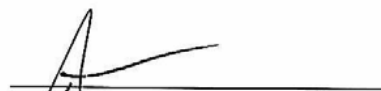
The preparation of the accompanying financial statements in accordance with accounting principles generally accepted in Canada is the responsibility of management.

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgments. Management has established systems of internal control, which are designed to provide reasonable assurance that the Company's assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors has reviewed the financial statements with management and the auditors and has approved the financial statements.



Darren Katic
President



Jerrett Creed
Chief Financial Officer



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CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal quarter ended March 31, 2008

Pacific Energy Resources LTD

CONSOLIDATED BALANCE SHEETS (STATED IN US DOLLARS AND THOUSANDS)

ASSETS

	<u>March 31, 2008</u> (Unaudited)	<u>December 31, 2007</u>
CURRENT ASSETS		
Cash	\$ 9,603	\$ 10,680
Accounts receivable	19,308	15,935
Other receivables	615	2,402
Inventory	6,079	8,556
Prepays and other current assets	<u>5,525</u>	<u>7,489</u>
	41,130	45,062
LONG-TERM ASSETS		
Performance bonds and deposits	4,876	5,592
Investments - abandonment	97,083	94,483
Equity investment	13,406	13,626
Asset retirement receivable	642	630
Property and equipment	5,978	4,780
Petroleum and natural gas properties	<u>529,055</u>	<u>527,698</u>
	651,040	646,809
	<u>\$ 692,170</u>	<u>\$ 691,871</u>



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CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal quarter ended March 31, 2008

Pacific Energy Resources LTD

CONSOLIDATED BALANCE SHEETS (STATED IN US DOLLARS AND THOUSANDS) (Continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>March 31, 2008</u> (Unaudited)	<u>December 31, 2007</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 42,167	\$ 38,256
Due to related parties	76	61
Notes payable	110,400	430
Derivative liability	31,473	34,247
Other liabilities	<u>374</u>	<u>—</u>
	184,490	72,994
LONG-TERM LIABILITIES		
Notes payable	349,517	449,166
Asset retirement obligation	59,032	58,025
Derivative liability	58,507	55,251
Other liabilities	<u>6,541</u>	<u>6,170</u>
	473,597	568,612
Non-controlling interests	7,755	7,755
Economic Dependence		
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Share capital	20	19
Subscriptions and subscriptions receipts	—	9,308
Contributed surplus	6,795	5,452
Warrants	24,117	24,117
Additional paid in capital	237,706	207,429
Accumulated other comprehensive loss	(81,958)	(82,716)
Deficit	<u>(160,352)</u>	<u>(121,099)</u>
	26,328	42,510
	<u>\$ 692,170</u>	<u>\$ 691,871</u>



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CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal quarter ended March 31, 2008

Pacific Energy Resources LTD

CONSOLIDATED STATEMENTS OF OPERATIONS

(STATED IN US DOLLARS AND THOUSANDS
EXCEPT PER SHARE AMOUNTS)

For the three months ended
(Unaudited)

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
REVENUES		
Oil and gas production revenue	\$ 60,299	\$ 6,845
Production expenses	(27,296)	(4,450)
Transportation expense	(1,072)	(83)
Royalty payments	(11,643)	(1,283)
Net oil and gas income	<u>20,288</u>	<u>1,029</u>
Unrealized gain/ (loss) on derivatives	(1,238)	-
Realized gain / (loss) on derivatives	(10,870)	(435)
Interest and dividends	2,207	668
Loss from nonconsolidated subsidiary	(220)	-
Other revenue	<u>33</u>	<u>219</u>
	<u>10,200</u>	<u>1,482</u>
EXPENSES		
General and administrative	4,394	1,261
Stock compensation expense	1,343	313
Liquidated damages	1,840	-
Interest	32,439	4,839
Depreciation, depletion and amortization	<u>9,437</u>	<u>1,491</u>
	<u>49,453</u>	<u>7,904</u>
LOSS BEFORE INCOME TAX	(39,253)	(6,422)
Income tax expense	<u>-</u>	<u>25</u>
NET LOSS	(39,253)	(6,447)
BASIC AND DILUTED LOSS PER SHARE	(<u>\$ 0.20</u>)	(<u>\$ 0.07</u>)



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CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal quarter ended March 31, 2008

Pacific Energy Resources LTD

CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICIT AND COMPREHENSIVE LOSS

(STATED IN US DOLLARS AND THOUSANDS)

For the three months ended

(Unaudited)

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
CONSOLIDATED STATEMENT OF ACCUMULATED DEFICIT		
ACCUMULATED DEFICIT – BEGINNING OF PERIOD	(\$ 121,099)	(\$ 22,350)
NET LOSS	(39,253)	(6,447)
ACCUMULATED DEFICIT – END OF PERIOD	(<u>\$ 160,352</u>)	(<u>\$ 28,797</u>)
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS		
NET LOSS	(\$ 39,253)	(\$ 6,447)
OTHER COMPREHENSIVE INCOME (LOSS)	<u>758</u>	<u>–</u>
COMPREHENSIVE LOSS	(<u>\$ 38,495</u>)	(<u>\$ 6,447</u>)
ACCUMULATED OTHER COMPREHENSIVE LOSS,		
BEGINNING OF PERIOD	(\$ 82,716)	\$ –
UNREALIZED HEDGING LOSSES	<u>758</u>	<u>–</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS	(<u>\$ 81,958</u>)	(<u>\$ –</u>)
END OF PERIOD		



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CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal quarter ended March 31, 2008

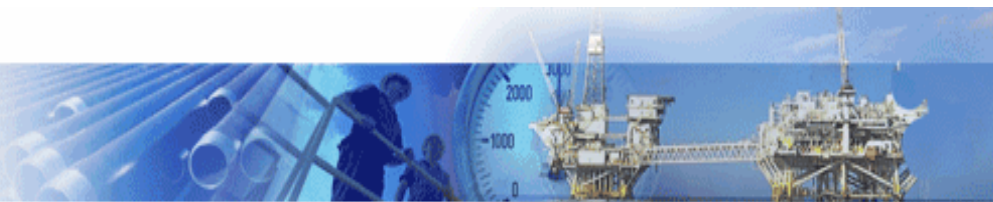
Pacific Energy Resources LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS (STATED IN US DOLLARS AND THOUSANDS) For the three months ended (Unaudited)

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(\$ 39,253)	(\$ 6,447)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation, depletion and amortization	9,437	1,491
Accretion	11,821	494
Non cash interest and dividend income	(1,884)	(-)
Stock compensation expense	1,343	313
Non-cash financing expenses	1,840	1,745
Loss from unconsolidated subsidiary	220	-
Changes in operating assets and liabilities:		
Receivables	(1,586)	295
Derivative asset	-	634
Inventory	2,477	-
Prepaid expenses and other current assets	1,964	(761)
Accounts payable and accrued liabilities	3,911	(687)
Other liabilities	374	(182)
Derivative liability	1,240	-
Due to related parties	15	9
Net Cash (Used In) Operating Activities	<u>(8,081)</u>	<u>(3,232)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for restricted and short-term investments		(818)
Petroleum and natural gas expenditures	(10,997)	(8,134)
Payments on asset retirement obligation		(219)
Net Cash Used In Investing Activities	<u>(10,997)</u>	<u>(9,171)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for common shares issued	19,130	-
Payments on notes payable	(1,129)	-
Cash received for notes payable issued	-	24,338
Net Cash Provided By Financing Activities	<u>18,001</u>	<u>24,338</u>
NET CHANGE IN CASH	(1,077)	11,936
CASH, BEGINNING OF PERIOD	<u>10,680</u>	<u>15,000</u>
CASH, END OF PERIOD	<u>\$ 9,603</u>	<u>\$ 26,936</u>



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 2008

(All amounts in thousands unless otherwise specified)

1. BASIS OF PRESENTATION

The 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 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.

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 material 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 12). 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 13).



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 2008

3. PROPERTY AND EQUIPMENT

The asset categories of petroleum and natural gas interests at March 31, 2008 and December 31, 2007 were as follows:

March 31, 2008			
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	553,224	24,169	529,055
Administrative assets	6,520	542	5,978
	559,744	24,711	535,033
December 31, 2007			
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	544,364	16,665	527,699
Administrative assets	5,178	398	4,780
	549,542	17,063	532,479

Included in Petroleum and natural gas properties and facilities at March 31, 2008 and December 31, 2007 are undeveloped properties and work in progress of \$23,133 and \$14,618 respectively, which are not subject to depletion.



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 2008

4. RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at their fair value as determined by management. In addition to items disclosed elsewhere, the balances referred to below are non-interest bearing, unsecured and due on demand.

- a) During the first three months of 2008, the Company incurred legal costs of approximately \$119.6 thousand with a company owned and operated by a Director of the Company with a balance owing of approximately \$19.3 thousand at March 31, 2008.

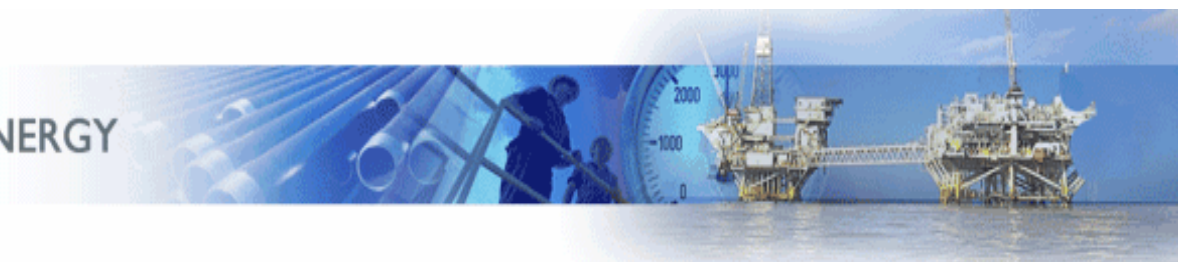
5. INTEREST

	Three Months Ended March 31,	
	2008	2007
Interest Expense - Long Term Debt	32,435	4,831
Interest Expense - Other	4	8
Interest and Dividend Income ⁽¹⁾	(2,207)	(668)
	30,232	4,171

⁽¹⁾ Interest Income is primarily related to asset abandonment funds in various institutions.



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 2008

6. NOTES PAYABLE

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

	Liability Component		Equity Component
	Face Value	Carrying Value	Fair Value
Balance at December 31, 2006	\$ 48,916	\$ 30,865	\$ 10,668
Proceeds	491,104	459,286	10,668
Payments	(40,114)	(11,314)	(2,192)
Less issue costs	-	(29,235)	-
Accretion, amortization and non-cash interest	8,995	28,794	-
Balance at December 31, 2007	508,901	449,596	42,486
Proceeds	-	-	-
Payments	(1,129)	(1,129)	-
Accretion, amortization and non-cash interest	4,207	11,450	-
Balance at March 31, 2008	\$ 511,979	\$ 459,917	\$ 42,486

7. ASSET RETIREMENT OBLIGATIONS

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

	Asset Retirement Obligation	Asset Retirement Receivable	Net Amount
Balance at December 31, 2006	\$ 1,655	\$ 585	\$ 633
Acquisitions	53,453	-	352
Retirements	(142)	-	(142)
Additions	-	-	-
Accretion	3059	45	3,014
Balance at December 31, 2007	58,025	630	57,395
Acquisitions	-	-	-
Retirements	(88)	-	(88)
Additions	-	-	-
Accretion	1,095	12	1,083
Balance at March 31, 2008	\$ 59,032	\$ 642	\$ 58,390



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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FOR THE PERIOD ENDED MARCH 31, 2008

8. INCOME TAXES

The provision for income taxes is as follows

	Three Months Ended March 31,	
	2008	2007
Current	\$ -	\$ -
Future tax	-	25
	\$ -	\$ 25

9. SHARE CAPITAL

	Number of Shares	Share Capital	Additional Paid In Capital
Balance – December 31, 2006	77,598	\$ 8	\$ 39,531
Warrants exercised	2,068		3,332
Shares issued for acquisitions	10,000	1	24,630
Shares issued for debt	4,750	1	11,255
Shares issued for debt issue costs	3,097	-	7,000
Stock options exercised	31	-	27
Shares issued for damages	648	-	1,624
Common stock issued	88,450	9	120,030
Balance – December 31, 2007	186,642	\$ 19	\$ 207,429
Shares issued for debt issue costs	2,063	-	4,882
Warrants exercised	1	-	22
Shares issued for damages	3,176	-	1,840
Common stock issued	12,171	1	23,533
Balance – March 31, 2008	204,053	\$ 20	\$ 237,706



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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FOR THE PERIOD ENDED MARCH 31, 2008

9. SHARE CAPITAL

Stock Options

PER has a stock-based compensation plan that allows employees to purchase common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options were issued. Options granted under the plan 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 at March 31, 2008

	Number of Options (in thousands)	Weighted Average Exercise Price per Share (CAD\$)
Outstanding, beg of year	12,002	\$1.15CAD
Granted during the period	5,057	\$1.46CAD
Forfeited during the period	(300)	\$0.84CAD
Outstanding, end of period	16,759	\$1.90CAD
Exercisable, end of period	4,086	\$1.12CAD

Contributed surplus	
Opening balance	\$ 5,452
Additions from issuance of stock options	1,343
Closing balance	\$ 6,795



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 2008

10. PER SHARE AMOUNTS

<u>Year</u>	<u>Outstanding</u>
Three months ended March 31, 2008	200,587
Three months ended March 31, 2007	93,253

11. COMMITMENTS

In addition to the commitments listed below, the Company has various indemnifications in place in the ordinary course of business, none of which, as assessed by management, are expected to have a significant impact on the Company's financial statements.

a) Operating Leases

The Company has non-cancelable operating leases for its office facilities. The leases have schedule increases, require the Company to pay its share of operating costs and expire from 2009 to 2012. The leases include an option to extend the term of the lease for three to five years.

Future minimum payments under operating leases for the next five years are as follows:

2008	\$796
2009	\$811
2010	\$671
2011	\$451
2012	\$160

b) Drilling Commitments:

The Company shares interests in various oil and gas properties with other companies. The Company may be required to provide funds for drilling and completion costs related to these oil and gas properties. At March 31, 2008 the Company has a commitment for drilling to begin in the Alaska Corsair lease by June 30, 2009.



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 2008

11. COMMITMENTS (CONTINUED)

c) Indemnifications

From time to time, the Company may become involved in litigation or have claims sought against it in the normal course of business operations. Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations.

Under the terms of certain agreements and the Company's by-laws, the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The Company has no outstanding claims having a potentially material adverse effect on the Company as a whole.

12. 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 has established policies in setting risk limits and controls and monitors 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.



PACIFIC ENERGY



NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 2008

12. FINANCIAL INSTRUMENTS (CONTINUED)

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. As at March 31, 2008, the Company had the following contracts outstanding:

Type	Amount	Term	Price (\$/bbl)	Type
Swap	1,078	March 31 - December 31, 2008	\$ 65.19	Financial
Swap	1,283	January 1 - December 31, 2009	\$ 64.12	Financial
Swap	1,014	January 1 - December 31, 2010	\$ 63.58	Financial
Swap	569	January 1 - December 31, 2011	\$ 61.31	Financial
Swap	307	January 1 - September 30, 2012	\$ 60.58	Financial

b) Foreign currency exchange risk

All of PER's petroleum and natural gas sales 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 March 31, 2008 the Company did not have any commitments to issue new shares on the Toronto Stock Exchange.



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
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12. FINANCIAL INSTRUMENTS (CONTINUED)

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 had no interest rate swaps or financial contracts in place at or during the three months ended March 31, 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 20th day of the month following delivery. The Company has not experienced any credit loss in the collection of its accounts receivable.

Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough available resources to withstand any downturn in the industry. As our industry is very capital intensive, the majority of spending is related to the Company's capital programs. See Note 13 for disclosure related to the management of the Company's capital program. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers.



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 2008

12. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial instruments

The carrying value of financial instruments, which include accounts receivable, deposits, derivative financial instruments, accounts payable and accrued liabilities approximates amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. The fair value of accounts receivable, deposits, accounts payable and accrued liabilities approximates their carrying amounts due to their short term nature. The fair value of derivative financial instruments is determined by calculating the difference between the contracted price and published forward price curves as at the balance sheet date, and then multiplying this price differential by the contracted commodity volumes. The Company's credit facilities bear interest at a floating market rate and accordingly the fair market value approximates the carrying value. The carrying and fair values of the Company's financial instruments as at March 31, 2008 are as follows:

	Carrying Value	Fair Value
<u>Financial Assets</u>		
Held-for-trading:		
Prepays and Deposits	\$ 10,401	\$ 10,401
Inventory	6,079	6,079
Loans and receivables:		
Accounts receivable	19,308	19,308
Other receivables	615	615
<u>Financial Liabilities</u>		
Held-for-trading:		
Risk management	89,979	89,979
Other financial liabilities		
Accounts payable and accrued liabilities	42,617	42,617
Credit facilities	459,917	459,917



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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 2008

13. CAPITAL DISCLOSURES

The Company has a mix of both short and long term debt consisting of excess cash flow sweeps, cash and non cash interest, and a subordinated seller note. The Company's goal is to reduce the overall amount of debt by 20-25% within the next 3 quarters. The Company is in the final stages of syndicating out the 1st lien secured Alaska debt. Once these activities occur, the Company will be in a position to optimize the capital structure including a reduced reliance on the debt markets for funding future growth. The goal is to carry only conventional term secured financing on the debt side. The Company believes this will bring down the overall cost of capital in the process. On the equity side, the Company is focused on increasing the top line and reducing operating expenses which will allow earnings to become positive in the early 2009 timeframe. This is conditional on the full return to production of Platform Eureka expected to be completed in the second half of this year.



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